

OFFICIAL STATEMENT DATED JUNE 3, 2003

NEW ISSUES

**Ratings: Requested from Moody's Investors Service
and Standard & Poor's Rating Services
(see "Ratings" herein)**

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants and agreements described herein, and subject to the conditions stated herein under "Tax Exemptions," under existing law, the interest on the Bonds (a) is excludable from gross income for Federal income tax purposes, and (b) is not an item of preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States. It is also the opinion of Bond Counsel that, under existing law, the interest on the Bonds and profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; but no opinion is expressed concerning, estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds or the income therefrom. See "Tax Exemption" herein.

Mayor and Council of Rockville, Maryland

\$13,395,000
General Obligation Bonds
of 2003, Series A

\$14,600,000*
General Obligation Refunding Bonds
of 2003, Series B

(Book Entry Only)

Dated Date: June 1, 2003

Principal Due: March 15 (as shown herein)

The General Obligation Bonds of 2003, Series A (the "Series A Bonds") and the General Obligation Refunding Bonds of 2003, Series B (the "Series B Bonds") (collectively the "Bonds" or "Obligations") will mature on March 15 as described inside the front cover of this Official Statement.

The City of Rockville (the "City") may elect on March 15, 2013, and on any day thereafter, to prepay the Series A Bonds due on or after March 15, 2014 at a price of par plus accrued interest. The Series B Bonds are not optionally callable prior to maturity.

The Bonds will be general obligations of the City, backed by its full faith, credit and unlimited taxing powers. The Series A Bond proceeds will be used for various public improvements and the Series B Bond proceeds will be used to refund certain outstanding City bonds as further described herein.

Proposals for each series of the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, provided that no serial bond may mature on or after the first mandatory sinking fund redemption date of any term bond. All term bonds shall be subject to mandatory redemption at a price of par plus accrued interest to the date of redemption and must conform to the maturity schedule set forth inside.

Proposals for each series of Bonds must be for not less than par nor more than 105% of par plus accrued interest on the total principal amount of each series. Proposals shall be accompanied by a certified or cashier's check or a Financial Surety Bond in the amount of \$133,950 for the Series A Bonds and \$146,000 for the Series 2003 B Bonds, payable to the order of the City. Bidders shall specify rates in integral multiples of 5/100 or 1/8 of 1%, provided that no rate may be more than one and one-half percent (1.5%) less than any preceding rate. Award of the Bonds will be made on the basis of True Interest Cost (TIC).

The Bonds will be issued as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book entry form only, in the principal amount of \$5,000 and integral multiples thereof. Investors will not receive certificates representing their interest in the Bonds purchased. (See "Book Entry System" herein.) The City will act as Registrar and Paying Agent. Bonds will be available for delivery at DTC on or about June 30, 2003.

* Preliminary, subject to change

PROPOSALS RECEIVED: June 12, 2003 (Thursday) at 11:00 A.M., Eastern Time

AWARD: June 12, 2003 (Thursday)



SPRINGSTED
Advisors to the Public Sector

Further information may be obtained from SPRINGSTED Incorporated, Financial Advisor to the Issuer, 85 East Seventh Place, Suite 100, Saint Paul, Minnesota 55101-2887 (651) 223-3000

Mayor and Council of Rockville, Maryland

\$13,395,000 General Obligation Bonds of 2003, Series A will mature on March 15 in the following years:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2004	\$ 670,000	2009	\$ 670,000	2014	\$ 670,000	2019	\$ 670,000
2005	\$ 670,000	2010	\$ 670,000	2015	\$ 670,000	2020	\$ 670,000
2006	\$ 670,000	2011	\$ 670,000	2016	\$ 670,000	2021	\$ 670,000
2007	\$ 670,000	2012	\$ 670,000	2017	\$ 670,000	2022	\$ 670,000
2008	\$ 670,000	2013	\$ 670,000	2018	\$ 670,000	2023	\$ 665,000

The City may elect on March 15, 2013, and on any day thereafter, to prepay the Series A Bonds due on or after March 15, 2014 at a price of par plus accrued interest.

\$14,600,000* General Obligation Refunding Bonds of 2003, Series B will mature on March 15 in the following years:

<u>Year</u>	<u>Principal*</u>	<u>Year</u>	<u>Principal*</u>	<u>Year</u>	<u>Principal*</u>	<u>Year</u>	<u>Principal*</u>
2004	\$2,305,000	2007	\$2,405,000	2010	\$ 835,000	2013	\$ 240 000
2005	\$2,255,000	2008	\$2,400,000	2011	\$ 485,000		
2006	\$2,385,000	2009	\$ 850,000	2012	\$ 440,000		

The Series B Bonds are not optionally callable prior to maturity.

* Preliminary, subject to change

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the Issuer from time to time (collectively, the "Official Statement"), may be treated as an Official Statement with respect to the Obligations described herein that is deemed final as of the date hereof (or of any such supplement or correction) by the Issuer, except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Obligations, together with any other information required by law, shall constitute a "Final Official Statement" of the Issuer with respect to the Obligations, as that term is defined in Rule 15c2-12. Any such addendum shall, on and after the date thereof, be fully incorporated herein and made a part hereof by reference.

By awarding the Obligations to any underwriter or underwriting syndicate submitting a Proposal therefor, the Issuer agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Obligations are awarded copies of the Official Statement and the addendum or addenda described in the preceding paragraph in the amount specified in the Terms of Proposal.

The Issuer designates the senior managing underwriter of the syndicate to which the Obligations are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter delivering a Proposal with respect to the Obligations agrees thereby that if its bid is accepted by the Issuer (i) it shall accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Obligations for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

No dealer, broker, salesman or other person has been authorized by the Issuer to give any information or to make any representations with respect to the Obligations, other than as contained in the Official Statement or the Final Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. Certain information contained in the Official Statement and the Final Official Statement may have been obtained from sources other than records of the Issuer and, while believed to be reliable, is not guaranteed as to completeness or accuracy. THE INFORMATION AND EXPRESSIONS OF OPINION IN THE OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THE OFFICIAL STATEMENT OR THE FINAL OFFICIAL STATEMENT NOR ANY SALE MADE UNDER EITHER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER SINCE THE DATE THEREOF.

References herein to laws, rules, regulations, resolutions, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts of documents prepared by or on behalf of the Issuer have not been included as appendices to the Official Statement or the Final Official Statement, they will be furnished on request.

CITY OF ROCKVILLE, MARYLAND

City Council

Larry Giammo, Mayor

Robert E. Dorsey
Anne M. Robbins

John F. Hall, Jr.
Susan R. Hoffmann

Administration

City Manager
Assistant City Manager
Director of Finance
Controller
City Clerk
City Attorney
Director of Public Works
Director of Recreation and Parks

W. Mark Pentz
Catherine Tuck Parrish
Donna J. Boxer
David B. Rowland
Claire F. Funkhouser
Paul T. Glasgow
Eugene H. Cranor
Burton R. Hall

Bond Counsel

Venable, Baetjer and Howard, LLP
Baltimore, Maryland

Financial Advisor

Springsted Incorporated
Saint Paul, Minnesota

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* *Preliminary, subject to change*

PROPOSALS WILL BE RECEIVED ON THE FOLLOWING BASIS:

TERMS OF PROPOSAL

\$13,395,000

**MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND
GENERAL OBLIGATION BONDS OF 2003, SERIES A
(BOOK ENTRY ONLY)**

Proposals for the Series A Bonds will be received on Thursday, June 12, 2003, until 11:00 A.M., Eastern Time, at the Office of the Director of Finance, Maryland Avenue at Vinson Street, Rockville, Maryland, after which time they will be opened and tabulated. Consideration for award of the Series A Bonds will be by the City Manager on the same day.

SUBMISSION OF PROPOSALS

The City will assume no liability for the inability of the bidder to reach the City prior to the time of sale specified above. All bidders are advised that each Proposal shall be deemed to constitute a contract between the bidder and the City to purchase the Series A Bonds regardless of the manner by which the Proposal is submitted.

(a) **Sealed Bidding.** Proposals may be submitted in a sealed envelope to the City.

OR

(b) **Electronic Bidding.** Electronic Bids may be submitted through PARITY®. For purposes of the electronic bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all Bids submitted to PARITY®. *Each bidder shall be solely responsible for making necessary arrangements to access PARITY® for purposes of submitting its electronic Bid in a timely manner and in compliance with the requirements of the Terms of Proposal.* Neither the City, its agents nor PARITY® shall have any duty or obligation to provide or ensure electronic access to any qualified prospective bidder, and neither the City, its agents nor PARITY® shall be responsible for any failure in the proper operation of, or have any liability for any delays or interruptions of or any damages caused by PARITY®. The City is using the services of PARITY® solely as a communication mechanism to conduct the electronic bidding for the Series A Bonds, and PARITY® is not an agent of the Authority.

If any provisions of this Official Terms of Proposal conflict with information provided by PARITY®, this Terms of Proposal shall control. Further information about PARITY®, including any fee charged, may be obtained from:

PARITY®, 40 W. 23rd Street, 5th Floor, New York City, New York 10010,
Customer Support, (212) 404-8102.

DETAILS OF THE SERIES A BONDS

The Series A Bonds will be dated June 1, 2003, as the date of original issue, and will bear interest payable on March 15 and September 15 of each year, commencing March 15, 2004. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Series A Bonds will mature March 15 in the years and amounts as follows:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2004	\$ 670,000	2009	\$ 670,000	2014	\$ 670,000	2019	\$ 670,000
2005	\$ 670,000	2010	\$ 670,000	2015	\$ 670,000	2020	\$ 670,000
2006	\$ 670,000	2011	\$ 670,000	2016	\$ 670,000	2021	\$ 670,000
2007	\$ 670,000	2012	\$ 670,000	2017	\$ 670,000	2022	\$ 670,000
2008	\$ 670,000	2013	\$ 670,000	2018	\$ 670,000	2023	\$ 665,000

Proposals for the Series A Bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to mandatory sinking fund redemption and must conform to the maturity schedule set forth above at a price of par plus accrued interest to the date of redemption. In order to designate term bonds, the proposal must specify "Last Year of Serial Maturities" and "Years of Term Maturities" in the spaces provided on the Proposal Form.

BOOK ENTRY SYSTEM

The Series A Bonds will be issued by means of a book entry system with no physical distribution of Series A Bonds made to the public. The Series A Bonds will be issued in fully registered form and one Bond, representing the aggregate principal amount of the Series A Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the Series A Bonds. Individual purchases of the Series A Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Series A Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The purchaser, as a condition of delivery of the Series A Bonds, will be required to deposit the Series A Bonds with DTC.

REGISTRAR

The City will act as Registrar and Paying Agent and shall be subject to applicable SEC regulations.

OPTIONAL REDEMPTION

The City may elect on March 15, 2013, and on any day thereafter, to prepay Series A Bonds due on or after March 15, 2014. Redemption may be in whole or in part and if in part at the option of the City and in such manner as the City shall determine. If fewer than all Series A Bonds of a maturity are called for redemption, the City will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All prepayments shall be at a price of par plus accrued interest.

SECURITY AND PURPOSE

The Series A Bonds will be general obligations of the City for which the City will pledge its full faith, credit and unlimited taxing powers. The proceeds will be used to finance various public improvements within the City.

TYPE OF PROPOSALS

Proposals shall be for not less than par nor more than 105% of par plus accrued interest on the total principal amount of the Series A Bonds. Proposals shall be accompanied by a Good Faith Deposit ("Deposit") in the form of a certified or cashier's check or a Financial Surety Bond in the amount of \$133,950, payable to the order of the City. If a check is used, it must accompany the proposal. If a Financial Surety Bond is used, it must be from an insurance company licensed to issue such a bond in the State of Maryland and preapproved by the City. Such bond must be submitted to the City prior to the opening of the proposals. The Financial Surety Bond must identify each underwriter whose Deposit is guaranteed by such Financial Surety Bond. If the Series A Bonds are awarded to an underwriter using a Financial Surety Bond, then that purchaser is required to submit its Deposit to the City in the form of a certified or cashier's check or wire transfer as instructed by the City not later than 12:00 P.M., Eastern Time, on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the City to satisfy the Deposit requirement. The City will deposit the check of the purchaser, the amount of which will be deducted at settlement and no interest will accrue to the purchaser. In the event the purchaser fails to comply with the accepted proposal, said amount will be retained by the City. No proposal can be withdrawn or amended after the time set for receiving proposals unless the meeting of the City scheduled for award of the Series A Bonds is adjourned, recessed, or continued to another date without award of the Series A Bonds having been made.

Interest rates on the Series A Bonds shall be in integral multiples of 5/100 or 1/8 of 1%, provided that only one rate shall be specified for a single maturity, and no rate shall be more than one and one-half percent (1.5%) less than any preceding rate. Series A Bonds of the same maturity shall bear a single rate from the date of the Series A Bonds to the date of maturity. No conditional proposals will be accepted.

AWARD

The Series A Bonds will be awarded on the basis of the lowest interest rate to be determined on a true interest cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling.

As a condition to the award of the Series A Bonds, the successful bidder shall be required to communicate to the City the initial offering prices at which a bona fide offering of Series A Bonds has been made to the public and the prices at which a substantial portion of each maturity of the Series A Bonds have been sold to the public (excluding bond houses, brokers and other intermediaries). Furthermore, as a condition to the delivery of the Series A Bonds, the successful bidder shall be required to certify that a bona fide offering of the Series A Bonds has been made to the public (excluding bond houses, brokers and other intermediaries) and such initial offering prices by written certificate, such certificate to be in form and substance reasonably satisfactory to the City's bond counsel.

The City will reserve the right to: (i) waive non-substantive informalities of any proposal or of matters relating to the receipt of proposals and award of the Series A Bonds, (ii) reject all proposals without cause, and, (iii) reject any proposal which the City determines to have failed to comply with the terms herein.

BOND INSURANCE AT PURCHASER'S OPTION

If the Series A Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the underwriter, the purchase of any such insurance policy

or the issuance of any such commitment shall be at the sole option and expense of the purchaser of the Series A Bonds. Any increased costs of issuance of the Series A Bonds resulting from such purchase of insurance shall be paid by the purchaser, except that, if the City has requested and received a rating on the Series A Bonds from a rating agency, the City will pay that rating fee. Any other rating agency fees shall be the responsibility of the purchaser.

Failure of the municipal bond insurer to issue the policy after Series A Bonds have been awarded to the purchaser shall not constitute cause for failure or refusal by the purchaser to accept delivery on the Series A Bonds.

CUSIP NUMBERS

If the Series A Bonds qualify for assignment of CUSIP numbers such numbers will be printed on the Series A Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the purchaser to accept delivery of the Series A Bonds. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the purchaser.

SETTLEMENT

Within 40 days following the date of their award, the Series A Bonds will be delivered without cost to the purchaser through DTC in New York, New York. Delivery will be subject to receipt by the purchaser of an approving legal opinion of Venable, Baetjer and Howard, LLP of Baltimore, Maryland, and of customary closing papers, including a no-litigation certificate. On the date of settlement, payment for the Series A Bonds shall be made in federal, or equivalent, funds which shall be received at the offices of the City or its designee. Except as compliance with the terms of payment for the Series A Bonds shall have been made impossible by action of the City, or its agents, the purchaser shall be liable to the City for any loss suffered by the City by reason of the purchaser's non-compliance with said terms for payment.

CONTINUING DISCLOSURE

In accordance with SEC Rule 15c2-12(b)(5), the City will undertake, pursuant to the resolution awarding sale of the Series A Bonds, to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Official Statement. The purchaser's obligation to purchase the Series A Bonds will be conditioned upon receiving evidence of this undertaking at or prior to delivery of the Series A Bonds.

OFFICIAL STATEMENT

The City has authorized the preparation of an Official Statement containing pertinent information relative to the Series A Bonds, and said Official Statement will serve as a nearly-final Official Statement within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. For copies of the Official Statement or for any additional information prior to sale, any prospective purchaser is referred to the Financial Advisor to the City, Springsted Incorporated, 85 East Seventh Place, Suite 100, Saint Paul, Minnesota 55101, telephone (651) 223-3000.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Series A Bonds, together with any other information required by law, shall constitute a "Final Official Statement" of the City with respect to the Series A Bonds, as that term is defined in Rule 15c2-12. By awarding the Series A Bonds to any underwriter or underwriting syndicate submitting a proposal therefor, the City agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Series A Bonds are awarded 50 copies of the Official Statement and the addendum or addenda described above. The City designates the senior managing underwriter of the syndicate to which the Series A Bonds are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter delivering a proposal with respect to the Series A Bonds agrees thereby that if its proposal is accepted by the City (i) it shall

accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Series A Bonds for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

BY ORDER OF THE CITY COUNCIL

/s/ W. Mark Pentz
City Manager

PROPOSALS WILL BE RECEIVED ON THE FOLLOWING BASIS:

TERMS OF PROPOSAL

\$14,600,000¹

**MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND
GENERAL OBLIGATION BONDS OF 2003, SERIES B
(BOOK ENTRY ONLY)**

Proposals for the Series B Bonds will be received on Thursday, June 12, 2003, until 11:00 A.M., Eastern Time, at the Office of the Director of Finance, Maryland Avenue at Vinson Street, Rockville, Maryland, after which time they will be opened and tabulated. Consideration for award of the Series B Bonds will be by the City Manager on the same day.

SUBMISSION OF PROPOSALS

The City will assume no liability for the inability of the bidder to reach the City prior to the time of sale specified above. All bidders are advised that each Proposal shall be deemed to constitute a contract between the bidder and the City to purchase the Series B Bonds regardless of the manner by which the Proposal is submitted.

(a) **Sealed Bidding.** Proposals may be submitted in a sealed envelope to the City.

OR

(b) **Electronic Bidding.** Electronic Bids may be submitted through PARITY®. For purposes of the electronic bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all Bids submitted to PARITY®. *Each bidder shall be solely responsible for making necessary arrangements to access PARITY® for purposes of submitting its electronic Bid in a timely manner and in compliance with the requirements of the Terms of Proposal.* Neither the City, its agents nor PARITY® shall have any duty or obligation to provide or ensure electronic access to any qualified prospective bidder, and neither the City, its agents nor PARITY® shall be responsible for any failure in the proper operation of, or have any liability for any delays or interruptions of or any damages caused by PARITY®. The City is using the services of PARITY® solely as a communication mechanism to conduct the electronic bidding for the Series B Bonds, and PARITY® is not an agent of the Authority.

If any provisions of this Official Terms of Proposal conflict with information provided by PARITY®, this Terms of Proposal shall control. Further information about PARITY®, including any fee charged, may be obtained from:

PARITY®, 40 W. 23rd Street, 5th Floor, New York City, New York 10010,
Customer Support, (212) 404-8102.

¹ Preliminary, subject to change

DETAILS OF THE SERIES B BONDS

The Series B Bonds will be dated June 1, 2003, as the date of original issue, and will bear interest payable on March 15 and September 15 of each year, commencing March 15, 2004. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Series B Bonds will mature March 15 in the years and amounts as follows*:

<u>Year</u>	<u>Principal*</u>	<u>Year</u>	<u>Principal*</u>	<u>Year</u>	<u>Principal*</u>	<u>Year</u>	<u>Principal*</u>
2004	\$2,305,000	2007	\$2,405,000	2010	\$ 835,000	2013	\$ 240 000
2005	\$2,255,000	2008	\$2,400,000	2011	\$ 485,000		
2006	\$2,385,000	2009	\$ 850,000	2012	\$ 440,000		

** The City reserves the right, after proposals are opened and prior to award, to increase or reduce the principal amount of the Bonds offered for sale. Any such increase or reduction will be made in multiples of \$5,000 in any of the maturities. In the event the principal amount of the Bonds is increased or reduced, any premium offered or any discount taken by the successful bidder will be increased or reduced by a percentage equal to the percentage by which the principal amount of the Bonds is increased or reduced.*

Proposals for the Series B Bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds. All term bonds shall be subject to mandatory sinking fund redemption and must conform to the maturity schedule set forth above at a price of par plus accrued interest to the date of redemption. In order to designate term bonds, the proposal must specify "Last Year of Serial Maturities" and "Years of Term Maturities" in the spaces provided on the Proposal Form.

BOOK ENTRY SYSTEM

The Series B Bonds will be issued by means of a book entry system with no physical distribution of Series B Bonds made to the public. The Series B Bonds will be issued in fully registered form and one Bond, representing the aggregate principal amount of the Series B Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the Series B Bonds. Individual purchases of the Series B Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Series B Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The purchaser, as a condition of delivery of the Series B Bonds, will be required to deposit the Series B Bonds with DTC.

REGISTRAR

The City will act as Registrar and Paying Agent and shall be subject to applicable SEC regulations.

OPTIONAL REDEMPTION

The Series B Bonds are not subject to optional redemption prior to maturity.

SECURITY AND PURPOSE

The Series B Bonds will be general obligations of the City for which the City will pledge its full faith, credit and unlimited taxing powers. The proceeds will be used to refund certain outstanding City bonds.

TYPE OF PROPOSALS

Proposals shall be for not less than par nor more than 105% of par plus accrued interest on the total principal amount of the Series B Bonds. Proposals shall be accompanied by a Good Faith Deposit ("Deposit") in the form of a certified or cashier's check or a Financial Surety Bond in the amount of \$146,000, payable to the order of the City. If a check is used, it must accompany the proposal. If a Financial Surety Bond is used, it must be from an insurance company licensed to issue such a bond in the State of Maryland and preapproved by the City. Such bond must be submitted to the City prior to the opening of the proposals. The Financial Surety Bond must identify each underwriter whose Deposit is guaranteed by such Financial Surety Bond. If the Series B Bonds are awarded to an underwriter using a Financial Surety Bond, then that purchaser is required to submit its Deposit to the City in the form of a certified or cashier's check or wire transfer as instructed by the City not later than 12:00 P.M., Eastern Time, on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the City to satisfy the Deposit requirement. The City will deposit the check of the purchaser, the amount of which will be deducted at settlement and no interest will accrue to the purchaser. In the event the purchaser fails to comply with the accepted proposal, said amount will be retained by the City. No proposal can be withdrawn or amended after the time set for receiving proposals unless the meeting of the City scheduled for award of the Series B Bonds is adjourned, recessed, or continued to another date without award of the Series B Bonds having been made.

Interest rates on the Series B Bonds shall be in integral multiples of 5/100 or 1/8 of 1%, provided that only one rate shall be specified for a single maturity, and no rate shall be more than one and one-half percent (1.5%) less than any preceding rate. Series B Bonds of the same maturity shall bear a single rate from the date of the Series B Bonds to the date of maturity. No conditional proposals will be accepted.

AWARD

The Series B Bonds will be awarded on the basis of the lowest interest rate to be determined on a true interest cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling.

As a condition to the award of the Series B Bonds, the successful bidder shall be required to communicate to the City the initial offering prices at which a bona fide offering of Series B Bonds has been made to the public and the prices at which a substantial portion of each maturity of the Series B Bonds have been sold to the public (excluding bond houses, brokers and other intermediaries). Furthermore, as a condition to the delivery of the Series B Bonds, the successful bidder shall be required to certify that a bona fide offering of the Series B Bonds has been made to the public (excluding bond houses, brokers and other intermediaries) and such initial offering prices by written certificate, such certificate to be in form and substance reasonably satisfactory to the City's bond counsel.

The City will reserve the right to: (i) waive non-substantive informalities of any proposal or of matters relating to the receipt of proposals and award of the Series B Bonds, (ii) reject all proposals without cause, and, (iii) reject any proposal which the City determines to have failed to comply with the terms herein.

BOND INSURANCE AT PURCHASER'S OPTION

If the Series B Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the underwriter, the purchase of any such insurance policy

or the issuance of any such commitment shall be at the sole option and expense of the purchaser of the Series B Bonds. Any increased costs of issuance of the Series B Bonds resulting from such purchase of insurance shall be paid by the purchaser, except that, if the City has requested and received a rating on the Series B Bonds from a rating agency, the City will pay that rating fee. Any other rating agency fees shall be the responsibility of the purchaser.

Failure of the municipal bond insurer to issue the policy after Series B Bonds have been awarded to the purchaser shall not constitute cause for failure or refusal by the purchaser to accept delivery on the Series B Bonds.

CUSIP NUMBERS

If the Series B Bonds qualify for assignment of CUSIP numbers such numbers will be printed on the Series B Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the purchaser to accept delivery of the Series B Bonds. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the purchaser.

SETTLEMENT

Within 40 days following the date of their award, the Series B Bonds will be delivered without cost to the purchaser through DTC in New York, New York. Delivery will be subject to receipt by the purchaser of an approving legal opinion of Venable, Baetjer and Howard, LLP of Baltimore, Maryland, and of customary closing papers, including a no-litigation certificate. On the date of settlement, payment for the Series B Bonds shall be made in federal, or equivalent, funds which shall be received at the offices of the City or its designee. Except as compliance with the terms of payment for the Series B Bonds shall have been made impossible by action of the City, or its agents, the purchaser shall be liable to the City for any loss suffered by the City by reason of the purchaser's non-compliance with said terms for payment.

CONTINUING DISCLOSURE

In accordance with SEC Rule 15c2-12(b)(5), the City will undertake, pursuant to the resolution awarding sale of the Series B Bonds, to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Official Statement. The purchaser's obligation to purchase the Series B Bonds will be conditioned upon receiving evidence of this undertaking at or prior to delivery of the Series B Bonds.

OFFICIAL STATEMENT

The City has authorized the preparation of an Official Statement containing pertinent information relative to the Series B Bonds, and said Official Statement will serve as a nearly-final Official Statement within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. For copies of the Official Statement or for any additional information prior to sale, any prospective purchaser is referred to the Financial Advisor to the City, Springsted Incorporated, 85 East Seventh Place, Suite 100, Saint Paul, Minnesota 55101, telephone (651) 223-3000.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Series B Bonds, together with any other information required by law, shall constitute a "Final Official Statement" of the City with respect to the Series B Bonds, as that term is defined in Rule 15c2-12. By awarding the Series B Bonds to any underwriter or underwriting syndicate submitting a proposal therefor, the City agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Series B Bonds are awarded 50 copies of the Official Statement and the addendum or addenda described above. The City designates the senior managing underwriter of the syndicate to which the Series B Bonds are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter delivering a proposal with respect to the Series B Bonds agrees thereby that if its proposal is accepted by the City (i) it shall

accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Series B Bonds for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

BY ORDER OF THE CITY COUNCIL

/s/ W. Mark Pentz
City Manager

OFFICIAL STATEMENT

MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND \$13,395,000 GENERAL OBLIGATION BONDS OF 2003, SERIES A (BOOK ENTRY ONLY)

MAYOR AND COUNCIL OF ROCKVILLE, MARYLAND \$14,600,000¹ GENERAL OBLIGATION REFUNDING BONDS OF 2003, SERIES B (BOOK ENTRY ONLY)

INTRODUCTORY STATEMENT

This Official Statement contains certain information regarding the City of Rockville, Maryland (the "City" or the "Issuer") and its issuance of \$13,395,000 General Obligation Bonds of 2003, Series A (the "Series A Bonds") and \$14,600,000* General Obligation Refunding Bonds of 2003, Series B (the "Series B Bonds"), collectively hereinafter referred to as the "Bonds," the "Obligations" or the "Issues." References herein to the Bonds mean both series of Bonds unless either series is specifically identified. The Bonds are general obligations of the City for which the City pledges its full faith, credit and unlimited taxing powers.

Inquiries may be directed to Ms. Donna J. Boxer, Director of Finance, City of Rockville, 111 Maryland Avenue, Rockville, Maryland 20850, or by telephoning (301) 309-3361 or (301) 309-3360. Inquiries may also be made to Springsted Incorporated, 85 East Seventh Place, Suite 100, St. Paul, Minnesota 55101-2887, or by telephoning (651) 223-3000.

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE SERIES A AND SERIES B BONDS ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT. THIS OFFICIAL STATEMENT SPEAKS ONLY AS OF ITS DATE SHOWN ON THE COVER PAGE HEREOF, AND THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934, as the same may be amended from time to time, and official interpretations thereof (the "Rule"), pursuant to the Award Resolutions, the City has entered into an undertaking (the "Undertaking") for the benefit of holders including beneficial owners of the Bonds to provide certain financial information and operating data relating to the City to certain information repositories annually, and to provide notices of the occurrence of certain events enumerated in the Rule to certain information repositories or the Municipal Securities Rulemaking Board and to any state information depository. The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Certificate to be executed and delivered by the City at the time the Bonds are

¹ Preliminary, subject to change

delivered in substantially the form attached hereto as Appendix II. The City has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events.

A failure by the City to comply with the Undertaking will not constitute an event of default on the Bonds (although holders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

THE BONDS

General Description

The Bonds are dated as of June 1, 2003 and will mature annually on March 15, as set forth inside the front cover of this Official Statement. The Bonds are issued in book entry form. Interest on the Bonds is payable March 15, 2004 and semiannually thereafter on March 15 and September 15. Interest will be payable to the holder (initially Cede & Co.) registered on the books of the registrar (the "Registrar") on the last business day of the calendar month next preceding such interest payment date. The City will serve as Registrar and paying agent for the Bonds. Principal of and interest on the Bonds will be paid as described in the section herein entitled "Book Entry System."

Optional Redemption

The City may elect on March 15, 2013, and on any day thereafter, to prepay the Series A Bonds due on or after March 15, 2014. Redemption may be in whole or in part and if in part at the option of the City and in such manner as the City shall determine. If fewer than all of the Series A Bonds of a maturity are called for redemption, the City will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All prepayments shall be at a price of par plus accrued interest.

The Series B Bonds are not subject to optional redemption prior to maturity.

Book Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also

facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If fewer than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its

usual procedures, DTC mails an Omnibus Proxy to the Registrar as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or its nominee), the Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registrar, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Obligations purchased or redeemed, through its Direct Participant, to the nominee holding the Obligations, and shall effect delivery of such Obligations by causing the Direct Participant to transfer the Direct Participant's interest in the Obligations, on DTC's records, to the nominee holding the Obligations. The requirement for physical delivery of the Obligations in connection with a purchase or redemption will be deemed satisfied when the ownership rights in the Obligations are transferred by the Direct Participants on DTC's records and followed by a book-entry credit of purchased or redeemed Obligations to the nominee holding the Obligations.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

AUTHORITY AND PURPOSE

The Series A Bonds are being issued pursuant to Article 23A of the Annotated Code of Maryland, as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, and in accordance with the ordinance enacted by the City on May 27, 2003 authorizing the issuance of the Bonds (the "Ordinance"). The Series B Bonds are being issued pursuant to Section 24 of Article 31 of the Annotated Code of Maryland, as amended, and the Ordinance.

Series A Bonds

The proceeds of the Series A Bonds will be used to finance various public improvement projects within the City. Those projects and their estimated costs are as follows:

<u>Project</u>	<u>Estimated Cost</u>
Vehicle acquisition	\$1,442,000
Telephone system replacement	595,000
Playground equipment replacement	500,000
Sand trap and cart path renovation	400,000
Regional treatment facility improvements	2,250,000
Town Center redevelopment	2,771,500
City Hall improvements	950,000
Park development and improvements	414,500
Bicycle route system development	600,000
Asphalt and concrete maintenance	1,642,000
Facility improvements	912,000
Housing opportunities	125,000
Traffic signal improvements	150,000
Wayfinding and gateway signage	140,000
Community gym contribution	200,000
Storm sewer system upgrades	100,000
Bridge rehabilitation	<u>150,000</u>
Total Project Costs:	13,342,000
Costs of Issuance	<u>53,000</u>
Total Series A Bonds	<u>\$13,395,000</u>

Series B Bonds

The proceeds of the Series B Bonds will be used to refund and redeem in full the City's outstanding bonds described as follows (collectively, the "Prior Bonds"):

- € Mayor and Council of Rockville, Maryland \$18,805,000 General Obligation Refunding Bonds of 1993, Series A
- € Mayor and Council of Rockville, Maryland \$4,850,000 General Obligation Bonds of 1993, Series B

The Prior Bonds will be redeemed on or about September 1, 2003. Redemption costs are as follows:

\$18,805,000 GO Refunding Bonds of 1993 Series A	
Principal	\$ 12,315,000
Interest	227,061
 \$4,850,000 GO Bonds of 1993 Series B	
Principal	2,400,000
Interest	<u>45,605</u>
Total Refunding Costs	\$ 14,895,441
Less City contribution for interest on refunded bonds	(272,666)
Less estimated net premium from Series B Bonds	(177,500)
Costs of Issuance	<u>62,500</u>
Total Series B Bonds	<u>\$ 14,600,000</u>

SECURITY AND FINANCING

The full faith and credit and unlimited taxing power of the City are irrevocably pledged to the levy and collection of an ad valorem tax or taxes on all the legally assessable property within the corporate limits of the City in rate and amount sufficient to provide for the payment of the maturing principal of and interest on the Bonds as and when they become payable.

The City has never defaulted in the payment of either principal or interest on any indebtedness.

FUTURE FINANCING

The City regularly incurs long-term debt for its various financing needs. The City does not anticipate incurring any long-term debt within the next six months.

LITIGATION

The City is not aware of any threatened or pending litigation affecting the validity of the Bonds or the City's ability to meet its financial obligations.

LEGALITY

The Bonds are subject to approval as to certain matters by Venable, Baetjer and Howard, LLP, of Baltimore, Maryland as Bond Counsel. Bond Counsel has not participated in the preparation of this Official Statement and will not pass upon its accuracy, completeness, or sufficiency. Bond Counsel has not examined or attempted to examine or verify, any of the financial or statistical statements, or data contained in this Official Statement and will express no opinion with respect thereto. Legal opinions in substantially the form set out as Appendix I to this Official Statement, will be delivered at closing.

TAX EXEMPTION

Federal Income Tax

In the opinion of Bond Counsel, under existing law, the interest on the Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes) and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

Under the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), there are certain requirements that must be met subsequent to the issuance of the Bonds in order for the interest on the Bonds to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the Bonds. Such restrictions include, among other things, limitations on the yield of investments acquired with gross proceeds of the Bonds and the periodic payment to the United States of specified portions of arbitrage profit derived from such investments.

In order to comply with the requirements of the Code, the City has made covenants and agreements that are designed to satisfy the requirements of Section 103 and Sections 141 through 150, inclusive, of the Code, and the income tax regulations issued thereunder. In the opinion of Bond Counsel, these covenants and agreements are sufficient to meet the requirements (to the extent applicable to the Bonds) of Section 103 and Sections 141 through 150 of the Code. However, Bond Counsel assumes no responsibility for, and will not monitor, compliance with these covenants and agreements. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds, either in the aggregate or only with respect to either the Series A Bonds or the Series B Bonds, from becoming includable in gross income for federal income tax purposes retroactively to the date of issue.

Interest on the Bonds is not included in corporate or individual alternative minimum taxable income as a separate enumerated item of tax preference or other specific adjustment. However, for purposes of computing the corporate alternative minimum tax contained in the Code, a corporation will generally be required to increase its alternative minimum taxable income by 75% of the amount by which its "adjusted current earnings" (a modified definition of "earning and profits") exceeds its alternative minimum taxable income (computed without regard to this adjusted current earnings adjustment). For such purpose, "adjusted current earnings" will include, among other items, tax-exempt interest income from the Bonds. Interest income on the Bonds may also be included with the "dividend equivalent amount" for purposes of determining the branch profits tax imposed by the Code on certain foreign corporations conducting a trade or business in the United States.

Other federal income tax consequences may arise from ownership of the Bonds, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Bonds, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive investment income, which includes interest on the Bonds, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status.

A Bond will be considered to have been issued at a premium if, and to the extent that, the holder's tax basis in the Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). The holder will be required to reduce his tax basis in the Bond for purposes of determining gain or loss upon disposition of the Bond by the amount of amortizable bond premium that accrues (determined on a constant yield method) during the period of ownership. No deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Bonds.

The initial public offering price of some of the Bonds may be less than the amount payable on those Bonds at maturity. The excess, if any, of the amount payable at maturity of a Bond over the initial public offering price (plus accrued interest from the dated date of the Bond to the date of initial delivery of the Bond) at which a substantial amount of the same maturity of the Bonds was sold constitutes original issue discount ("OID") for Federal income tax purposes. The full amount of OID will accrue over the term of a Bond in accordance with a constant yield method (using semiannual compounding) which allocates smaller portions of OID to earlier semiannual compounding periods and larger portions of OID to later semiannual compounding periods. In the case of an original or a subsequent holder of a Bond, the amount of OID which is treated as having

accrued with respect to such Bond during the period that the holder has held it (a) is not included in the gross income of the holder for Federal income tax purposes, and (b) is included in the cost basis of the holder in determining, for Federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). Holders of Bonds should consult their tax advisors with respect to the determination, for Federal income tax purposes, of OID accrued upon the sale, redemption or payment at maturity of the Bonds.

Prospective purchasers of the Bonds should consider possible state and local, excise, or franchise tax consequences arising from original issue discount on the Bonds. In addition, prospective corporate purchasers of the Bonds should consider possible federal income tax consequences arising from original issue discount on the Bonds under the alternative minimum tax and the branch profits tax described above.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Bonds, if enacted, could alter or amend one or more of the federal tax matters referred to above and/or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to obligations issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete. Prospective purchasers and holders of the Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

Maryland State and Local Income Tax

In the opinion of Bond Counsel, under existing law of the State of Maryland, the interest on the Bonds and the profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; but no opinion is expressed as to estate or inheritance taxes or any other taxes not levied or assessed directly on the Bonds or the income therefrom.

Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Bonds should consult their tax advisors regarding the taxable status of the Bonds in a particular state or local jurisdiction other than the State of Maryland.

RATINGS

As noted on the cover hereof, an application for a rating on the Bonds has been requested from Moody's Investors Service ("Moody's"), 99 Church Street, New York, New York, and from Standard & Poor's Rating Services ("S&P"), 55 Water Street, New York, New York. The ratings reflect only the opinions of Moody's and S&P. Any explanation of the significance of the ratings may be obtained only from Moody's or S&P.

There is no assurance that the ratings will continue for any given period of time, or that such ratings will not be revised, suspended or withdrawn if, in the judgment of Moody's or S&P, circumstances so warrant. A revision, suspension or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

The City has retained Springsted Incorporated, Advisors to the Public Sector, of St. Paul, Minnesota, as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. In preparing the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the City to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

CERTIFICATION

The City has authorized the distribution of this Official Statement for use in connection with the initial sale of the Bonds.

As of the date of the settlement of the Bonds, the Purchaser will be furnished with a certificate signed by the appropriate officers of the City. The certificate will state that as of the date of the Official Statement, the Official Statement did not and does not as of the date of the certificate contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

W. Mark Pentz
City Manager

THE CITY OF ROCKVILLE

The following information is provided for the purpose of presenting certain information relating to the City of Rockville (the "City"), Maryland (the "State"). Except as otherwise stated, the information is provided as of June 30, 2002.

Overview

Rockville, the County seat of Montgomery County, occupies 13.03 square miles within the Metropolitan Washington Area and is located 12 miles northwest of Washington, DC. The City lies within four miles of I-495, the Capital Beltway, and is traversed by I-270. The topography is rolling with small hills. Average altitude of the area is 400 feet above sea level.

Rockville was first settled in the late 1700's, chosen as the County seat in 1776, and officially designated as Rockville by the Maryland General Assembly in 1801. The name was derived from Rock Creek, which runs past the eastern boundary of the city. Rockville was incorporated in 1860. The Confederate Monument in Rockville commemorates the days when General Jubal Early's forces passed through Rockville to and from an attack on Washington.

Rockville is both a residential community and an employment and economic center. Rockville experienced its greatest growth after World War II. The population grew from 2,047 to 6,934 between 1940 and 1950 and to 26,090 by 1960. During the 1960s Rockville shared in the rapid population growth experienced in the entire Washington, DC Metropolitan Statistical Area (MSA). In 1970 Rockville's population was 42,739, an increase of 64 percent over 1960. Population growth moderated during the 1970s. According to the 2000 figures from the U.S. Bureau of the Census, the City's population is 47,388. The City has an employment base of 48,900.

Form of Government

Rockville is a city sharing local government taxing authority with Montgomery County. The City of Rockville derives its governing authority from a charter granted by the General Assembly of Maryland. The City has operated under the Council-Manager form of government since 1948. The governing body of the City is the Mayor and Council, which formulates policies for the administration of the City. The Mayor and Council are comprised of the Mayor and four council members each elected at large for two year concurrent terms. Mayor and Council members and their terms of office are:

Mayor and Council

	<u>Initial Term Commenced</u>	<u>Current Term Expires</u>
Larry Giammo, Mayor	2001	2003
Robert E. Dorsey	1993	2003
John F. Hall, Jr.	2001	2003
Anne M. Robbins	1999	2003
Susan R. Hoffmann	2001	2003

The City Manager is appointed by the Mayor and Council to serve as the City's chief executive officer. He has appointive and removal authority over department heads and all other employees of the City. The City Manager is responsible for implementation of policies established by the Mayor and Council. Financial operations of the City are performed by the Finance Department under the supervision of the Director of Finance. The Director of Finance reports directly to the City Manager.

Certain City Officials and Administrative Staff Members

Mayor and Council

Larry Giammo was elected **Mayor** of Rockville on Nov. 6, 2001. He brought with him a considerable experience working with local government and a wealth of business and management experience from the private sector. He served on Rockville's Planning Commission from 1996-2001, including one year as its chair. He was chair of Rockville's Town Center Land Use Advisory Committee from December 2000 through May 2001. The committee worked with the consultants hired by the City to develop a new master plan for Town Center. From 1994 through March of 2001, Mayor Giammo worked for the Corporate Leadership Council in Washington, D.C., a division of the Corporate Executive Board. He played a key role in the launch, growth and management of the Council, which had nearly 100 employees and more than \$30 million in annual revenue when he departed as a Managing Director. Mayor Giammo previously worked for Mercer Management Consulting in Washington and in Brisbane, Australia as an associate. He earlier served as a financial analyst for General Electric Information Services in Rockville and London. Mayor Giammo was enlisted in the U.S. Army Reserve from 1982-88, serving at Fort Gordon, Ga., and Fort Meade, Md. He served about one year of active duty (including advanced training for microwave repair) and five years of part-time duty. He holds a Masters of Business Administration from Carnegie-Mellon University and bachelor degrees in Finance and Economics from the University of Maryland.

Robert E. Dorsey is serving his fifth term on the Rockville City Council. He serves on the Metropolitan Washington Council of Governments (COG). He is on the Public Safety and Crime Prevention Committee of the National League of Cities, the Maryland Municipal League Communications Committee, and the Maryland Municipal League Public Safety Committee. He is also a board member of the Montgomery County Boys & Girls Clubs, and he is a member of the Alliance of Rockville Citizens, the Rockville Optimists Club, the Twinbrook Citizens Association, Southern Christian Leadership Conference, the NAACP, the Lincoln Park Historical Society, and the Monument Toastmasters Club. Mr. Dorsey is a Resource Specialist at MontgomeryWorks located in the Lakeforest Mall in Gaithersburg. At Mount Calvary Baptist Church in Rockville, Mr. Dorsey is a Sunday School teacher. He is a graduate of Montgomery College and is retired following 27 years as Marketing Representative and Systems Engineer with IBM Corporation.

John F. Hall, Jr. is serving his first term on the Rockville City Council. Prior to his election to the City Council, he served for almost five years on the Rockville City Traffic and Transportation Commission, including two terms as its chair, from 1999 to 2001. Mr. Hall also extended his transportation focus to the development of the new Rockville Town Center by serving as chair of the Transportation and Interjurisdictional Cooperation Committee of the Town Center Master Plan Advisory Group. Additionally, he has served on several Maryland State Highway Administration transportation working groups seeking solutions to regional transportation issues. Mr. Hall has also been active as a life member of Peerless Rockville Historic Preservation, where he served on the board of directors from 2000 to 2001. He is a nationally-licensed paramedic and master firefighter, serving for more than a decade as an active member of the Bethesda-Chevy Chase Rescue Squad. He also served for several years as vice-president of the Rescue Squad, as well as a member of its board of directors. His fire and rescue service includes top Fire and Rescue Training Academy honors for: paramedic; firefighting; practical rescue; truck company operations; pumper operations; and emergency vehicle operations. Mr. Hall is a licensed attorney who serves as the National Aeronautics and Space Administration's Manager of International Technology Transfer Policy. He also is NASA's export control administrator. From 1994 to 2000, He served as the senior counsel for International and Commercial Space Programs at NASA Headquarters. Previously, Mr. Hall spent several years as an attorney at the United States Department of Commerce, where he was awarded the Commerce Department's highest honor:

the Gold Medal, for his work in developing effective export control programs in the newly-democratic nations of Central and Eastern Europe. Prior to joining the government, he was in private law practice with the Washington, D.C., firm of Preston, Gates, Ellis & Rouvelas Meeds. He is the author of several nationally-published articles concerning national security and international policy matters. He is a graduate of the Washington & Lee University School of Law and Georgetown University's School of Foreign Service. He also completed independent study in Warsaw, Poland, for undergraduate and law school, as well as law studies in Moscow and Leningrad, Russia.

Anne M. Robbins was elected to her second term on the City Council in November 2001. Prior to being elected to the City Council, Ms. Robbins did library consultation work for the Montgomery County Council. She continues to teach high school part-time in the County School System. Her previous work experience includes teaching in other jurisdictions, government experience at the Federal level (U.S. Department of Housing and Urban Development) and local level (Montgomery County Government). Ms. Robbins' public service volunteer work has included participating as an advisor on Rosalynn Carter's Mental Health Commission, directing her high school PTSA's "Organized to Resist Drugs Initiative," and serving on the Board of Directors of the Rockville Community Ministries, the F. Scott Fitzgerald Commemorative Committee, and the Twinbrook Library Advisory Committee. Ms. Robbins received her bachelor's degree in Education from Penn State University and a master's in Public Administration from the Maxwell School of Citizenship at Syracuse University.

Susan R. Hoffmann was elected to her first term on the City Council in November 2001. Since August 1995, Ms. Hoffmann has been the manager of marketing and communications in the Silver Spring Regional Services Center, the local source of government services for the Silver Spring/Takoma Park Region. The Center includes the Silver Spring Redevelopment Office, established to implement and monitor the redevelopment and revitalization of downtown Silver Spring as a "town center." She collaborates daily with the development team, governmental agencies, and other key private sector players such as the American Film Institute and Discovery Communications, Inc. In December 1986, Ms. Hoffmann joined Montgomery County as a legislative analyst in its Office of Intergovernmental Relations. She represented the County's interests before the Maryland General Assembly, the Governor and the state agencies' staff. Beyond her day-to-day responsibilities, she was appointed by the county executive to serve on the Montgomery County Task Force to study the Municipal Tax Duplication Reimbursement Program, and produced, wrote and hosted "Eye on Annapolis," a weekly cable television program on the Maryland General Assembly. Ms. Hoffmann's past experience includes tenures as a Congressional Aide to two members of the U.S. House of Representatives; a public affairs assistant to the 1980 White House Conference on Families; and a feature writer with Bucks County Courier/Doylestown Intelligencer (a suburban Philadelphia daily). Ms. Hoffmann holds a Bachelor of Science degree in Communications from Temple University and has done post-graduate work in Basic Economic Development through the University of Maryland's University College.

City Staff

City Manager

W. Mark Pentz was appointed as Rockville's City Manager in June 1998. Prior to coming to Rockville, he served as City Manager of Leavenworth, Kansas, for 10 years. Prior to Leavenworth, Mr. Pentz was the City Manager of Mexico, Missouri, for more than six years. He holds a bachelor's degree in United States history and masters degrees in both United States history and public administration from the University of Kansas. He is a member of the International City/County Management Association (ICMA).

Assistant City Manager

Catherine Tuck Parrish has been Assistant City Manager for the City of Rockville since May 2001. Prior to that, she worked in Fairfax County, Virginia, for the International City/County Management Association, and in the cities of Denton and University Park, Texas. She holds a bachelor of arts in personnel administration and communication studies and a master of public administration from the University of Kansas. Ms. Tuck Parrish is a member of the International City/County Management Association and the Maryland City and County Management Association. She is secretary for the Metropolitan Association of Local Government Assistants.

City Attorney

Paul T. Glasgow holds a bachelor of arts degree from the University of Maryland and a law degree from George Washington University. He is past treasurer and past president of the Maryland Municipal Attorney's Association, has served on the Governor's Task Force to study local government antitrust liability, and was a member of the State Trial Courts Judicial Nominating Commission. He is a member of the American, Maryland, and Montgomery County Bar Associations. Mr. Glasgow is a partner in Venable, Baetjer and Howard, LLP, which is serving as the bond counsel in connection with the sale and issuance of the Bonds.

Director of Finance

Donna J. Boxer has served as the City's Director of Finance since May 1997. She served as the Director of Finance for the Housing Opportunities Commission (HOC) of Montgomery County from 1991 to 1997 and as HOC's Budget Officer from 1986 to 1991. Prior to this, Ms. Boxer was a budget analyst for the City of Atlanta, Georgia. She has a master of business administration in finance from Georgia State University and a bachelor of arts in history from Oberlin College. Ms. Boxer serves as a budget reviewer for the Government Finance Officers Association.

Director of Public Works

Eugene H. Cranor began his duties in Rockville in August 1996. Prior to coming to Rockville, he served as Director of Public Works for the City of Burlington, Iowa. Mr. Cranor was in the U.S. Army for 21 years as Public Works Director at Fort Campbell, Kentucky, and the Republic of Panama; as Chief of Staff for the Corps of Engineers; and as Assistant Director of Public Works at Fort Stewart, Georgia. Mr. Cranor has a bachelor degree in geology from Arkansas Technology University and a master degree in contract management/civil engineering from North Carolina State University.

Director of Recreation and Parks

Burton R. Hall has served as Director of Recreation and Parks since April 1992. His career with the City of Rockville began in 1974 at the Municipal Swim Center where he was the Aquatics Supervisor and Swim Center Director. He was appointed Superintendent of Recreation in 1983. Mr. Hall holds a bachelor of science degree from Amherst College and is a Certified Leisure Professional. He is a member of, and has served in various volunteer capacities with, the Maryland Recreation and Parks Association and the National Recreation and Parks Association.

City Government Services

The City of Rockville provides a full range of services for the community including: zoning and planning; water, sewer, and refuse collection services; one-stop location for licenses, permits, and inspections; snow removal, leaf collection, street maintenance, and other public works functions;

recreation and parks services; and special programs for senior citizens, youth and low-income residents.

City Manager's Office

The Department of the City Manager coordinates with the Mayor and Council to enact and implement City policy and to manage the policy agenda by providing management and administrative support for the day-to-day operations of the City government. The Wellness Program, Graphics and Printing, the Public Information Office, Citizen Satisfaction Survey, Citizen Service Requests, Customer Service, the Intergovernmental Program, and the Performance Measurement Program are part of the City Manager's Office.

Community Planning and Development Services

The Department of Community Planning and Development Services promotes and facilitates the orderly development and redevelopment of the city to benefit both residential and business activity. The department prepares plans and develops programs that provide policy guidance and support to the Mayor and Council, Boards and Commissions, and the City senior management staff to make public decisions with respect to the provision of adequate public facilities and services, the use of land, and the administration of laws affecting development policies. The Department contains six divisions: Administration, Revitalization and Housing, Planning, Long-Range Planning, Inspection Services, and Community Development Block Grant (CDBG).

Finance

The Department of Finance helps the various agencies of the City government meet their service objectives by acquiring goods and services, allocating the organization's available financial resources, processing financial transactions and providing information and analysis as a basis for decision making. The department bills and/or collects the major City revenues and provides assistance to taxpayers and utility customers. The department also provides financial planning services for the City, secures financing for capital construction, and safeguards and invests City funds.

Fire Department

Fire protection is provided by the Rockville Volunteer Fire Department, which is staffed by 110 paid professional and 200 volunteer fire fighters. The Rockville District includes four fire stations, two of which are located in the city limits. All four, however, respond to calls within Rockville.

There are 17 independent fire departments and two rescue squad departments in Montgomery County, all of which participate in overall planning, fire prevention programs, operation of a centralized dispatch service, and training provided by the Montgomery County Department of Fire/Rescue Services.

The Rockville Volunteer Fire Department is funded by a special County consolidated fire district tax of \$.109 per \$100 of assessed value.

Information and Technology

The Information and Technology Department manages the City's telephone, telecommunications, cable television, and computer systems, including mainframes, personal computers, and local and wide area networks. The department also maintains and manages the City's website and geographic information systems and collects revenues from telecommunications activities.

Personnel

The City of Rockville Personnel Department recruits, retains, and services qualified and capable people in the most fair, effective, and efficient manner possible; and provides a full range of personnel and safety services in support of all other City departments and their functions.

Public Safety

Police protection within Rockville is provided by both the City and Montgomery County, with the City's force providing an enhanced level of public safety service for City residents supplementary to that of the County. Both City and County respond to all types of calls. The Police Department has 50 authorized officers, plus 20 civilian employees. City police officers are dispatched by the City dispatch system, but also listen to and respond to calls for service from the County dispatch system. Written memoranda of understanding between the City and the County govern their respective jurisdictions and responsibilities.

In addition, the Rockville Police Department provides community policing services, which are specially designed to meet the needs of the Rockville community.

Neighborhood and Community Services

Neighborhood and Community Services combines the divisions of Neighborhood Resources Program, Community Enhancement and Code Enforcement, and Youth, Family and Community Services. The department provides for the well-being of individuals, families, and communities through the identification of the human service needs of all residents; delivery of preventive and intervention programs including counseling and outreach services; the promotion of a community that values diversity; and the assurance that residential and community properties are well maintained.

Public Works

The City's Department of Public Works provides services in the areas of streets and drainage; refuse collection and recycling; water and sewer utilities; leaf collection, traffic operations; snow and ice control, and storm water management. In Fiscal Year 2003, the Public Works Department maintained an estimated 146 miles of streets and 228 miles of sidewalks. Refuse collection is provided to 12,675 dwelling units. Solid waste is disposed of at a sanitary landfill operated by Montgomery County, which charges the City for disposal on a per-ton basis.

The City operates a water treatment plant and 146.4 miles of water mains, which serve 11,968 accounts within the City. The Washington Suburban Sanitary Commission (WSSC) operates 20.5 miles of water mains within the city, serving approximately 5,600 residences.

The City provides sewage collection for all but the WSSC service area. The City's sewage is treated at the Blue Plains regional treatment plant in the District of Columbia. Rockville has contractual entitlement to 9.3 million gallons per day of capacity at this plant, under an agreement with the WSSC. The City also maintains 59.9 miles of storm sewers. The City currently inspects and maintains 42 wet or dry ponds, 23 oil/grit separators, 6 stormceptors, 4 sand filters 7 underground detention facilities, 2 bio-retention facilities, 3 infiltration trenches and 8 dry wells.

Recreation and Parks

The City's Recreation and Parks Department provides such services as parks and urban forest maintenance, recreation and cultural arts programs, special events, a municipal golf course, and a swim center. It also maintains City buildings and facilities and provides quality maintenance and landscaping of all City rights-of-way. The department offers athletic programs, classes, cultural arts programs, and special fee supported trips. The department also offers community

recreation programs such as playgrounds and open gyms that are supported through General Fund revenues. The operating expenses of the municipal golf course, the swim center and the childcare program are fee supported.

Special Recognition

The City of Rockville has earned the Government Finance Officers Association Distinguished Budget Presentation Award 11 years in a row and the Certificate of Achievement for Excellence in Financial Reporting for 12 consecutive years. For the 14th year, the National Arbor Day Foundation awarded Rockville a Tree City USA Award for planting and urban forest management. In past years, Rockville has been designated an "All-America City" four times.

Overlapping Governmental Units

Montgomery County

The City of Rockville shares local governing authority with Montgomery County. Montgomery County provides health, welfare, additional social services, mass transit, the public library system, and education within the City. Montgomery County also coordinates most of the fire and volunteer rescue services in the area.

Regional Authorities

Washington Suburban Sanitary Commission

Operation and maintenance of the water and sewer system for approximately 5,600 residences in Rockville and for the rest of Montgomery County and Prince George's County is the responsibility of a bi-county agency, the Washington Suburban Sanitary Commission ("WSSC"). WSSC operates under State law and is governed by a six-member commission. The county executives of Montgomery County and Prince George's County each appoint three members, subject to confirmation by the respective county councils. The FY 2004 proposed operating and capital budget for WSSC totaled \$669.7 million and currently employs more than 1,500 positions.

Two major sources -- the Potomac and Patuxent Rivers -- provide the raw water supply. WSSC has 212 million gallons of water supply storage and an effective filtration capacity of 341 million gallons per day. Most of the WSSC sewage flows through a gravity trunk line system for treatment at the Blue Plains Wastewater Treatment Plant in Washington, D.C. WSSC has upgraded the Blue Plains Wastewater Treatment Plant to a wastewater treatment capacity of 370 mg/d.

The Maryland-National Capital Park and Planning Commission

The Maryland-National Capital Park and Planning Commission administers more than 31,000 acres of parkland including 12 regional parks, each consisting of more than 200 acres, and 370 different park and open space areas, most locations serving as local and neighborhood parks. These parks feature 630 acres of lakes including Lake Frank, Lake Needwood, Little Seneca Lake and Pine Lake. Additionally, the 1,865 acre Seneca Creek State Park is located in the heart of Montgomery County. The National Park Service provides additional park facilities including the C&O Canal National Park and Great Falls National Park.

FINANCIAL INFORMATION

Financial Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) which may or may not fall within the City's oversight and control. The specific factors which are addressed in determining which organizations to include in the entity are delineated below:

- Manifestations of Oversight Responsibility
 - Selection of Governing Authority
 - Designation of Management
 - Ability to Significantly Influence Operations

- Accountability for Fiscal Matters
 - Budgetary Authority
 - Responsibility for Debt
 - Financial Management
 - Revenue Characteristics

Additional factors which may significantly influence the definition of the reporting entity are:

- Scope of Public Service
- Special Financing Relationship

The relative importance of each criterion must be evaluated in light of specific circumstances. Although the decision to include or exclude a potential component unit is left to the professional judgment of responsible local officials, a positive response to any of the above criteria requires that the specific reasons for excluding the potential component unit be disclosed. Accordingly, listed below are all organizations for which there is at least one positive response with respect to the above criteria:

1. Included Within the Entity

None. It is important to note, however, that the pension plan, for which the City acts in a trustee capacity, is included in the reporting entity.

2. Excluded from the Entity

Rockville Housing Enterprises. The Board of Directors is appointed by the Mayor and Council of the City of Rockville. Once appointed, however, the directors of Rockville Housing Enterprises operate autonomously, with no authority being exercised over them by the Mayor and Council. Rockville Housing Enterprises is responsible directly to the United States Department of Housing and Urban Development, rather than to any local jurisdiction. No financial interdependency, ability to significantly influence operations or accountability for fiscal matters exists between this entity and the City of Rockville.

Financial Reports

The City Charter specifies that the financial books and accounts of the City must be audited annually by a certified public accountant. The auditor is required to examine all funds and account groups of the City in accordance with generally accepted accounting standards.

The accounts of the City are organized into funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenue and expenditures (or expenses, as appropriate). Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be expended and the means by which spending activities are controlled. The following fund types and account groups are used by the City:

GOVERNMENTAL Funds -- General Fund, Community Development Block Grant Fund, Special Activities Fund, Debt Service Fund, Capital Projects Fund, and Property Management Fund;
PROPRIETARY Funds -- Water Facility Fund, Sanitary Sewer Fund, Refuse Fund, Storm Water Management Fund, Parking Fund, and RedGate Golf Course Fund;
FIDUCIARY -- Pension Trust Fund.

The modified accrual basis of accounting is followed by the governmental funds, as well as the "financial flow measurement focus." Under this method of accounting, revenue is recorded when susceptible to accrual, i.e. when measurable and available for the funding of current appropriations.

Copies of the City's audited financial reports for the years ended June 30, 1998 through 2002 and the Fiscal Year 2003 Adopted Operating Budget and Capital Improvements Program are available upon request from the City. Excerpts from the City's 2002 Comprehensive Annual Financial Report are attached as Exhibit A to this Official Statement.

Budgeting and Accounting

The City Charter requires the City Manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a six-year capital improvements plan is presented for the Mayor and Council's review. Each department and agency prepares its own budget request for the City Manager's review. The Mayor and Council schedule public hearings and publish advance notices of them. The budget is approved in the form of an appropriations ordinance. During the year, the City Manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can only be enacted by the Mayor and Council through a budget amendment ordinance.

The City places continued emphasis on maintenance of an accounting system which provides strong internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. The internal controls in place in the City are subject to continuous review by management officials and the City's external auditors.

Capital Improvements Program

The Capital Improvements Program ("CIP") is a projection of the City's capital investments plan over a six-year period. The CIP is both a fiscal and planning device which allows the City to monitor all capital project costs, funding sources, departmental responsibilities, and timing. Each year the CIP is reviewed within the context of ongoing City, County, State, and federal planning programs and policies, as well as the City's Master Plan.

Capital investments involve City projects which normally have long useful lives. Items included within a CIP are usually defined within one of the following five categories:

1. The acquisition of land for a public purpose.
2. The construction of a significant facility, e.g., a building or a road, or the addition to or extension of an existing facility.
3. Nonrecurring rehabilitation or major repair to all or a part of a facility, such as infrequent repairs that are not considered to be recurring maintenance, provided the total cost is more than \$24,999.
4. Any specific planning, engineering study, or design work related to an individual project falling within the three preceding categories.
5. A significant one-time investment in tangible goods of any nature, the benefit of which will accrue over a multi-year period. Examples include items such as large initial investments in technology improvements or the purchase of a new telephone system.

The recommended CIP includes six years of projected capital needs. The first year of the program becomes the capital budget for which project money will be authorized. The remaining five years of the CIP will serve as a financial plan for capital investments. The City's six-year plan for Fiscal Years 2003 through 2008 calls for total expenditures of \$152.8 million. The capital budget for Fiscal Year 2003 anticipates \$20.0 million of capital spending.

Historical Results of Operations

Statements of revenues and expenditures of the operating funds of the City have been compiled from the City's financial reports. They have been organized in such a manner as to facilitate year-to-year comparisons. The following two tables present statements of revenues and expenditures of the City's general and special revenue funds for the years 1998 through 2002. The third table following presents the general fund balance for the past five fiscal years. Appendix III to this Official Statement presents excerpts from the City's Comprehensive Annual Financial Report for the year ended June 30, 2002. The fourth table following presents projections of revenue, expenditures and changes in fund balance for the City's general fund for the fiscal year ending June 30, 2003.

**Comparative Statement of Revenue and Expenditures
and Changes in Fund Balance -- General Fund (\$ in 000's)
Years Ended June 30**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Revenue</u>					
Property Taxes	\$16,570	\$17,268	\$17,329	\$18,438	\$20,389
Assessments				437	460
Revenue from Other Governments:					
Community Development Block Grant				435	386
Income Taxes	4,639	5,138	4,867	6,958	6,469
Gas and Motor Vehicles	1,678	2,203	2,264	2,340	2,560
County Tax Duplication Payment	1,803	1,417	1,335	1,611	1,416
Admissions and Amusement Taxes	417	709	857	1,076	1,056
Cable Television Franchise Fee	129	291	302		
Grants and Other Governmental					
Revenues	874	939	1,014	1,948	2,517
Licenses and Permits	1,168	1,130	1,645	1,929	2,096
Charges for Services	2,080	2,616	2,992	5,566	5,188
Use of Money and Property	1,061	1,064	1,165	1,446	919
Fines and Forfeitures	93	131	13	11	8
Other Revenue	1,012	1,009	1,379	2,635	1,830
Total Revenue	<u>\$31,526</u>	<u>\$33,914</u>	<u>\$35,162</u>	<u>\$44,830</u>	<u>\$45,293</u>
<u>Expenditures</u>					
Current Operations:					
General Government	\$5,952	\$6,381	\$7,242	\$7,248	8,088
Community Development Block Grant	1,094	1,058	868	435	386
Community Development				1,083	1,245
Community Services	649	692	687	1,397	1,860
Public Safety	4,508	4,922	5,614	5,791	5,901
Public Works	4,802	4,488	4,411	4,459	4,604
Recreation and Parks	7,835	8,543	9,112	11,140	12,031
Non-Departmental	3,078	1,567	1,816	1,518	1,596
Capital Outlay				6,545	10,960
Debt Service				3,886	3,238
Total Expenditures	<u>\$27,918</u>	<u>\$27,651</u>	<u>\$29,749</u>	<u>\$43,503</u>	<u>\$49,909</u>
Excess (Deficiency) of Revenue Over Expenditure	3,608	6,264	5,414	1,327	(4,616)
Other Financing Sources (Uses)					
Operating Transfers In				8,895	8,875
Operating Transfers Out	(\$3,758)	(\$6,588)	(\$6,428)	(8,931)	(8,912)
Proceeds from Sale of General					
Obligation Bonds				---	2,546
Total Other Financing Sources (Uses)	(\$3,758)	(\$6,588)	(\$6,428)	(\$37)	\$2,509
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditure and other Financing Uses	(\$148)	(\$324)	(\$1,014)	\$1,290	(\$2,107)
Fund Balance at Beginning of Year	<u>11,232</u>	<u>11,084</u>	<u>10,760</u>	<u>11,330</u>	<u>12,620</u>
Fund Balance at End of Year	<u><u>\$11,084</u></u>	<u><u>\$10,759</u></u>	<u><u>\$9,745</u></u>	<u><u>\$12,620</u></u>	<u><u>\$10,513</u></u>

Note: Detail may not add to summations due to rounding.

**Comparative Statement of Revenue and Expenditures
and Changes in Fund Balance -- Special Revenue Funds
Years Ended June 30**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Revenue					
Revenue from other Governments:					
Grants and Other Governmental					
Revenue	\$ 249,045	\$ 587,962	\$ 303,854	\$ 435,289	\$ 385,644
Charges for Services	----	----	910,134	1,398,956	-
Use of Money and Property	5,527	21,500	14,023	39,092	12,427
Other Revenue	81,280	131,832	279,227	313,039	428,262
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenue	\$ 335,852	\$ 741,294	\$ 1,507,238	\$ 2,186,376	\$ 826,333
Expenditures					
Current Operations					
Community Development	249,045	587,962	303,854	435,289	385,644
Community Services	74,057	130,231	84,482	200,181	379,702
Operating Expenditures	----	----	910,897	973,042	-
Other	----	26,018	669	468	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 323,102	\$ 744,211	\$ 1,299,902	\$ 1,608,980	\$ 765,346
Excess (Deficiency) of Revenues over Expenditures	\$ 12,750	\$ (2,917)	\$ 207,336	\$ 577,396	\$ 60,987
Other Financing Sources (Uses)					
Operating Transfers In	----	19,000	38,131	50,000	25,000
Operating Transfers Out	----	----	----	(571,682)	----
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	\$ -	\$ 19,000	\$ 38,131	\$ (521,682)	\$ 25,000
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 12,750	\$ 16,083	\$ 245,467	\$ 55,714	\$ 85,987
Fund Balances at Beginning of Year	80,453	93,203	176,263	(156,980)	(101,266)
Net Increase (Decrease) in Fund Balance					
Due to Residual Equity Transfer		66,977	(578,710)	-	591,987
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances at End of Year	\$ 93,203	\$ 176,263	\$ (156,980)	\$ (101,266)	\$ 576,708

General Fund Balance
Years Ended June 30

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>General Fund Balance:</u>					
Reserved for Encumbrances	\$548,406	\$1,080,405	\$267,888	\$312,731	\$193,867
Reserved for Noncurrent Receivable					
Reserved for Self Insurance Deposit	261,394	261,394	261,393	261,393	261,393
Reserved for Inventory	256,310	225,407	262,146	259,586	297,783
Reserved for Advance		100,000	350,000	350,000	350,000
Unreserved:					
Designated for Future Expenditure	93,236	175,199	1,823,671	2,316,817	592,906
Undesignated	<u>9,923,659</u>	<u>8,916,341</u>	<u>6,779,503</u>	<u>9,500,544</u>	<u>9,129,175</u>
Total General Fund Balance	<u>\$11,083,005</u>	<u>\$10,758,746</u>	<u>\$9,744,601</u>	<u>\$13,001,071</u>	<u>\$10,825,124</u>
Total General Fund Balance as					
Percentage of General Fund					
Revenues	<u>35.20%</u>	<u>31.70%</u>	<u>27.70%</u>	<u>31.60%</u>	<u>25.60%</u>
Unreserved, Undesignated General Fund					
fund balance as Percentage of					
General Fund Revenues	<u>31.50%</u>	<u>26.30%</u>	<u>19.30%</u>	<u>23.10%</u>	<u>21.60%</u>

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**Projections for Fiscal Year 2003 Pertaining to
Revenues, Expenditures and Changes in Fund Balance -- General Fund**

	2003 Adopted <u>Budget</u>
Revenue	
Property Taxes	\$ 20,510,000
Revenue from Other Governments	
Income Taxes	6,135,000
Gas and Motor Vehicles	2,480,985
County Tax Duplication Payment	1,458,000
Admissions and Amusement Taxes	1,082,800
Cable Television Franchise Fee	330,000
Grants and Other Governmental Revenues	1,009,392
Licenses and Permits	1,768,566
Charges for Services	5,070,412
Use of Money and Property	434,030
Fines and Forfeitures	627,800
Other Revenue	<u>1,723,048</u>
 Total Revenue	 \$ 42,630,033
 Expenditures	
General Government	\$ 8,892,661
Community Development	2,984,800
Community Services	1,586,995
Public Safety	4,746,769
Public Works	4,862,822
Recreation and Parks	12,112,577
Non-Departmental	<u>7,406,466</u>
 Total Expenditures	 \$ 42,593,090
 Excess of Revenue Over Expenditures	 \$ 36,943
 Other Financing Uses	
Operating Transfers Out	<u>(628,292)</u>
 Total Other Financing Uses	 \$ (628,292)
 Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and other Financing Uses	 <u>(591,349)</u>
 Fund Balance (unreserved, estimated) at Beginning of Year	 9,722,081
 Fund Balance at End of Year	 <u><u>\$ 9,130,732</u></u>

General Fund Revenue

For Fiscal Year 2002, the three largest sources of revenue to the City are the property tax (48.2% of revenues), the City's share of the earned income tax (15.3%) and charges for services (11.5%). The earned income tax is collected by the State of Maryland. Other significant sources of General Fund revenues are the City share of the State gas and motor vehicle tax, Montgomery County's payment for City services for which the County collects taxes, grants and other government revenue, licenses and permits, and interest income.

The property tax rate for Fiscal Year 2002 is \$.322 per \$100 of assessed valuation.

Property Valuations and Taxes

Property Valuation

The assessment of real and tangible personal property for purposes of property taxation by state and local governmental units is the responsibility of the State Department of Assessment and Taxation. Assessment records and tax rolls are maintained in each county seat and in Baltimore City. Real property is assessed at 100 percent of its full cash value. One-third of the real property base is physically inspected and revalued once every three years. Any increase in full cash value arising from such reassessment is phased in over the ensuing three taxable years in equal annual installments, although a decline becomes effective the first year.

Property Tax Exemptions

Exemptions from State and local property taxation include real property owned by Federal, State, County and other governmental units, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind. The State Department of Assessments and Taxation grants exemptions from property taxes, pursuant to State law.

Assessed Value of All Taxable Property by Class

Year Ended June 30	<u>Real Property</u>	<u>Personal Property</u>	Privately Owned <u>Public Utilities</u>	<u>Total</u>
1998	\$1,684,271,005	\$320,740,290	\$ 90,462,140	\$2,095,473,435
1999	1,750,113,882	286,113,760	94,941,830	2,131,169,472
2000 ⁽¹⁾	n/a	n/a	n/a	-----
2001	1,952,589,315	327,180,110	104,083,470	2,383,852,895
2002 ⁽²⁾	5,365,409,658	346,798,430	128,933,300	5,841,141,388

⁽¹⁾ Fiscal Year 2000 information was not provided by Montgomery County as the result of the implementation of its new tax billing system.

⁽²⁾ As the result of a change to state law, all real property was assessed at 100 percent of value, rather than 40 percent for the tax year beginning July 1, 2001.

Assessed and Estimated Market Value of Taxable Property

<u>Year Ended June 30</u>	<u>Assessed Value</u>	<u>Estimated Actual Value⁽¹⁾</u>	<u>Ratio of Total Assessed to Total Actual Value</u>
1998	2,095,473,435	4,761,471,520	44.01%
1999	2,131,169,472	4,900,696,795	43.49%
2000 ⁽²⁾	n/a	n/a	----
2001	2,383,852,895	5,312,736,868	44.87%
2002 ⁽³⁾	5,841,141,388	5,841,141,388	100.00%

- (1) The State examines different property types every third year which causes uneven growth trends.
- (2) Fiscal Year 2000 information was not provided by Montgomery County as the result of the implementation of its new tax billing system.
- (3) As the result of a change to state law, all real property was assessed at 100 percent of value, rather than 40 percent for the tax year beginning July 1, 2001.

Tax Rate Valuation

A single tax rate applies for each fiscal year to the assessed value of the taxable real and personal property. The rate is equal to the ratio of the amount to be raised per \$100 of assessed value. The following table presents the tax rates for all taxing jurisdictions in the City for the last five fiscal years.

Property Tax Rates ⁽¹⁾ All Overlapping Governments

<u>Year Ended June 30</u>	<u>City</u>	<u>State</u>	<u>County ⁽²⁾</u>	<u>Total</u>
1998	0.82	0.21	2.319	3.349
1999	0.815	0.21	2.292	3.317
2000	0.805	0.21	2.258	3.273
2001	0.805	0.21	2.253	3.268
2002 ⁽³⁾	0.322	0.084	0.901	1.307

- (1) Per \$100 of Assessed Value
- (2) County tax rates include school levies
- (3) As the result of a change to State law, all real property was assessed at 100% of value, rather than 40% for the tax year beginning July 1, 2001.

Personal property in Maryland has always been assessed at full value. State law now requires that personal property shall be taxed at 2.5 times the real property rate.

Property Tax Levies and Collections

Montgomery County levies real and personal property taxes on all taxable property within its boundaries. Taxes are due in full on July 1 and payable without penalty in equal installments on the following September 30 and December 31. Interest at the rate of 2/3 of 1% per month and penalty of 1% per month are charged on each delinquent installment; new tax bills may be paid within 30 days without interest or penalty. Tax sales are held on the second Monday in June in

the fiscal year taxes are due and payable to recover delinquent real property taxes. Legal action may be taken to enforce payment of both real and personal property taxes.

The following table presents the tax levy and tax collections for the City of Rockville for each of the past five fiscal years.

Property Tax Levies and Collections						
<u>Year Ended June 30</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections and Adjustments</u>	<u>Total Tax Collection</u>	<u>Total Collection as Percent of Current Levy</u>
1998	17,194,378	16,900,149	98.3%	(329,671)	16,570,478	96.4%
1999	17,218,483	16,652,168	96.7%	616,202	17,268,370	100.3%
2000	17,569,656	17,245,761	98.2%	83,500	17,329,261	98.6%
2001	18,696,967	18,122,645	96.9%	315,853	18,438,498	98.6%
2002	20,747,696	19,546,914	94.2%	842,049	20,388,963	98.3%

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Principal Taxpayers

A list of the 10 taxpayers in the City with the highest corporation real property and personal property taxes on the 2002 assessment is presented in the following two tables.

Ten Largest Taxpayers Corporation Real Property Taxes

<u>Name</u>	<u>Assessed Value⁽¹⁾</u>	<u>Taxes</u>	<u>Percentage of Assessed Value of Real Property in City</u>
King Farm Association, LLP ⁽¹⁾	\$67,508,043	\$ 53,014 ⁽²⁾	1.26%
Congressional Plaza Association	66,032,900	212,623	1.23%
Prentiss Property Research	64,028,166	206,171	1.19%
Realty Associates Fund III LLP	57,608,450	185,499	1.07%
Tower Dawson, LLC	54,912,770	176,819	1.02%
One Irvington Center	53,927,532	173,647	1.01%
Boston Properties, LTD	53,289,086	171,591	0.99%
William M. Rickman	52,248,162	167,878	0.97%
Washington Real Estate Investments	50,166,164	161,535	0.93%
T A Western, LLC	44,948,374	144,734	0.84%
Total Corporation Real Property Taxes	<u>\$564,669,647</u>	<u>\$1,653,511</u>	<u>10.51%</u>

Source: State of Maryland Department of Assessments and Taxation

(1) As the result of a change to State law, all real property was assessed at 100% of value, rather than 40% for the tax year beginning July 1, 2001

(2) The majority of these taxes were billed at the City's lower secondary rate for certain undeveloped land.

Ten Largest Taxpayers Corporation Personal Property Taxes

<u>Name</u>	<u>Assessment</u>	<u>Taxes</u>	<u>Percentage of Assessed Value of Personal Property in City</u>
Potomac Electric Power	\$50,353,520	\$405,346	10.58%
Verizon, MD	36,863,090	296,748	7.75%
PE Corporation, NY	24,545,870	197,594	5.16%
ACS Government Services, Inc.	15,901,380	128,006	3.34%
Startec Global Operating Co.	13,379,260	107,703	2.81%
Washington Gas	10,517,100	84,663	2.21%
MCI World Com	10,495,430	84,488	2.21%
New Jersey Financial	10,325,950	83,124	2.17%
Advanced Telecom Group	10,106,080	81,354	2.12%
GE Capital Corporation	9,439,150	75,985	1.98%
Total Corporation Personal Property Taxes	<u>\$191,926,830</u>	<u>\$1,545,011</u>	<u>40.33%</u>

Source: State of Maryland Department of Assessments and Taxation

Special Assessments Collections

Special assessments are spread with the property tax levy each year and become due July and delinquent the following March 1. Interest on special assessments is computed based on the City's interest cost of financing the projects being assessed. Assessments for water and sewer improvements are spread over 20 years. Street construction is spread over 10, 15 or 20 years and sidewalk construction over 5 or 10 years. The following table presents special assessment billings and collections for the past five fiscal years.

Special Assessment Billings and Collections

<u>Year Ended June 30</u>	<u>Current Assessments Billed</u>	<u>Current Assessments Collected⁽¹⁾</u>	<u>Ratio of Collections to Amount Due</u>	<u>Total Outstanding Assessments</u>
1998	1,412,445	1,125,477	79.7%	6,046,231
1999	800,415	855,838	106.9%	4,510,446
2000	804,210	789,369	98.2%	4,058,231
2001	675,823	672,142	99.5%	3,693,981
2002	663,881	666,566	100.4%	3,304,043

Uncollected assessments are received as a result of the property tax sale; consequently, this guarantees virtually 100 percent payment. Assessments which are normally due in July become delinquent the following March 1. Assessment values presented here include interest charges included in the total payment; if the assessment were paid off early, a lesser amount would be received.

Pension and Retirement Plan

Substantially all city employees participate in a single employer, defined benefit, contributory pension plan adopted by the City in 1969. The Principal Mutual Live Insurance Company is the administrator of this Public Employee Retirement System (PERS). The PERS has a defined benefit option and a defined contribution option from which employees can select. The payroll for employees covered by the PERS for the plan year ended March 31, 2002 was \$22,224,041.

The City's net assets available for defined benefits exceeded the unfunded pension benefit obligation by \$8,064,233 at April 1, 2002.

For further information pertaining to the City's pension plans refer to "Note 15" of the "Notes to General Purpose Financial Statements" contained as a part of Appendix III to this Official Statement.

Employee Relations and Bargaining Units

The City currently funds approximately 524 merit system and contractual positions on its work force. Administrative, technical, and clerical employees have the option of joining the Association of Administrative Municipal Employees (AAME), which meets and confers with management on various items of employee concern. Police officers also have the option of joining the Fraternal Order of Police (FOP), which also meets and confers with management. Neither AAME nor the FOP engages in collective bargaining with the City. Labor classification employees, who work in the Public Works and Recreation and Parks Departments, are represented by the American Federation of State, County and Municipal Employees (AFSCME) Local 1453, which bargains collectively with the City. The current contract is in force through June 30, 2005. Since the City recognized the union in 1967, there have been no strikes by municipal employees. The City considers its labor relations to be excellent.

Investment Policy

The City maintains an active cash and investment management program. The primary objectives of the program are the preservation of capital, providing liquidity to meet financial obligations and the attainment of a favorable rate of return.

The City's investment policy was last revised in January 1996, and complies with all State of Maryland requirements. The City is authorized to invest in obligations for which the United States has pledged its full faith and credit for the payment of principal and interest, in obligations that a federal agency issues in accordance with an Act of Congress, or in repurchase agreements that any of the foregoing obligations secure. In addition, the City may invest in bankers' acceptances, commercial paper of the highest investment grade, and money market funds which are also of the highest investment grade.

City Indebtedness

Historical Summary of Outstanding Debt

The following table presents the total debt outstanding on June 30 for the City of Rockville in each of the past five fiscal years. The second table following presents debt ratios for the same years.

Historical Summary of Bonded Indebtedness

<u>June 30</u>	<u>Bonded Debt⁽¹⁾</u>	<u>Enterprise</u>	<u>Net Bonded Debt</u>	<u>Adjusted Net Bonded Debt⁽²⁾</u>
1998	29,027,922	7,714,877	21,313,045	19,876,042
1999	29,178,682	7,925,620	21,253,062	18,484,124
2000	28,158,337	8,595,031	19,563,306	17,033,029
2001	25,305,585	8,701,478	16,604,107	15,616,485
2002	28,508,286	11,736,799	16,771,487	14,399,371

(1) Includes general obligation bonds and the Enterprise Fund debt.

(2) The net bonded debt is reduced by the amount of equity in the Debt Service Fund for the purpose of calculating the ratio and per capita figures in the following table.

Five Year Debt Statistics

<u>June 30</u>	<u>Population⁽¹⁾</u>	<u>Assessed Value (000's)</u>	<u>Adjusted Net Bonded Debt to Assessed Value</u>	<u>Adjusted Net Bonded Debt Per Capita</u>
1998	48,025	2,095,473	0.95%	414
1999	48,618	2,131,169	0.87%	380
2000	48,920	2,142,331	0.80%	348
2001	47,388 ⁽²⁾	2,383,853	0.70%	330
2002	47,388 ⁽²⁾	5,841,141 ⁽³⁾	0.20% ⁽³⁾	304

(1) Provided by the City of Rockville Department of Community Planning and Development Services.

(2) Source: 2000 U.S. Census

(3) As the result of a change to State law, all real property was assessed at 100% of value, rather than 40% for the tax year beginning July 1, 2001

Authorization of Debt and Debt Policy

The City of Rockville has the authority to issue general obligation bonds or bond anticipation notes upon a majority vote of the Mayor and Council. General Obligation Bonds and Bond Anticipation Notes are issued to finance public improvements including the acquisition of land for public purposes, construction of significant facilities, nonrecurring rehabilitation or major repair of facilities and engineering, design, and planning work related to projects as set forth in the City's Capital Improvement Program.

General obligation debt of the City is divided, for the purposes of the following schedules, between debt that is primarily paid from the City's tax levy and special assessment collections and debt that is paid from the revenues of the City's water, sanitary sewer and refuse enterprise funds. Though various sources of revenue are used to pay debt service, the City's general obligation bonds are all backed by the City's full faith, credit and taxing power.

Future Financing

From Fiscal Year 2004 to Fiscal Year 2008, the City anticipates constructing approximately \$32,094,000 of capital improvement projects that will be supported by General Fund sources. The following table presents a summary of the City's 2004-2008 Capital Financing Plan.

Projected Capital Financing Plan, Fiscal Years 2004-2008 **(Amounts in \$000's)**

	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>
Funds Needed for Capital Projects	\$ 19,969	\$ 10,953	\$ 12,545	\$ 7,664	\$ 6,197
Sources of Funds (projected)					
External (other governments or private contributions)	5,822	2,494	2,518	1,031	2,420
Internal	313	313	313	313	313
Bond Issues	11,924	6,630	7,760	4,300	1,480
"Pay as You Go"	1,400	1,600	1,800	2,000	2,200
Total Sources of Funds	19,459	11,037	12,391	7,644	6,413
Beginning Cash Balance	731	221	305	151	131
Ending Cash Balance	\$ 221	\$ 305	\$ 151	\$ 131	\$ 347

Outstanding Debt

Debt Limit

There are no statutory or Charter provisions limiting the amount of general obligation debt that may be issued by the City.

General Obligation Bonds and Note

General obligation bonds are secured by the full faith, credit and taxing powers of the City. The City's general obligation indebtedness by issue is presented in the following table.

General Obligation Debt as of June 30, 2002

<u>Description</u>	<u>Year of Issuance</u>	<u>Interest Rate Range</u>	<u>Outstanding Principal</u>	<u>Year of Final Maturity</u>
<u>General Long-Term Debt</u>				
General improvements ⁽¹⁾	1993	4.5-5.25%	10,359,451	2012
General improvements ⁽¹⁾	1993	4.5-5.25%	1,650,000	2013
General improvements	1998	3.5-4.3%	1,455,000	2013
General improvements - equipment	1999	4.17-4.53%	279,212	2006
General improvements - equipment	2000	4.17-4.53%	598,431	2007
General improvements	2002	4.00-4.65%	<u>2,429,393</u>	2021
Total general long-term debt			<u><u>\$16,771,487</u></u>	
<u>Enterprise Funds</u>				
General improvements – water ⁽¹⁾	1993	4.5-5.25%	\$ 995,000	2013
General improvements ⁽¹⁾	1993	4.5-5.25%	3,915,549	2012
General improvements	1999	3.21%	<u>2,478,452</u>	2019
General improvements	2000	3.64%	<u>1,056,192</u>	2020
General improvements	2002	1.90%	<u>101,230</u>	2023
General improvements	2002	4.00-4.65%	<u>3,365,607</u>	2021
Total enterprise funds long-term debt			<u><u>\$11,912,030⁽²⁾</u></u>	

⁽¹⁾ To be refunded with proceeds from the Series 2003 B Bonds.

⁽²⁾ Amount does not include unamortized bond discount of \$175,231.

Portions of the City's general obligation debt service are being paid with revenues of the sewer, water and refuse funds. The following schedules report annual debt service payments for the City of Rockville's general obligation debt by source of payment. The following table presents the portion of the City's debt service, including debt service on a portion of the Bonds, which is being paid through the tax levy and special assessments. The second table following presents the portion of the City's debt service, including debt service on a portion of the Bonds, which is being paid with revenues of City enterprise funds.

**Schedule of Annual Principal and Interest Payments
City of Rockville General Obligation Debt
Levy and Assessment Supported Debt⁽¹⁾
As of June 30, 2002 and upon Issuance of the Bonds**

Fiscal Year Ended June 30	Outstanding Principal and Interest ⁽²⁾	Series 2003A Principal and Interest ⁽³⁾	Series 2003B Principal and Interest ⁽⁴⁾	Total Levy and Assessment Supported Debt
2003	\$ 2,798,106	\$ -	\$ -	\$ 2,798,106
2004	610,962	809,078	1,878,508	3,298,548
2005	590,695	871,214	1,860,000	3,321,909
2006	548,797	857,017	1,905,500	3,311,314
2007	436,530	842,820	1,870,214	3,149,564
2008	360,514	828,098	1,816,766	3,005,378
2009	378,255	792,990	666,626	1,837,871
2010	377,253	778,325	639,223	1,794,801
2011	370,475	762,649	372,567	1,505,691
2012	363,605	745,962	329,217	1,438,783
2013	360,549	728,516	176,434	1,265,499
2014	182,962	710,564	-	893,526
2015	177,184	692,107	-	869,291
2016	171,271	673,144	-	844,415
2017	165,224	653,676	-	818,900
2018	159,177	633,701	-	792,878
2019	153,062	613,221	-	766,283
2020	146,881	592,488	-	739,369
2021	140,711	571,250	-	711,961
2022	-	549,759	-	549,759
2023	-	523,988	-	523,988
Total	\$ 8,492,213	\$ 14,230,568	\$ 11,515,055	\$ 34,237,836

(1) General Obligation debt which is expected to be paid from revenue from tax levies and special assessments.

(2) Outstanding levy and assessment supported debt less amounts refunded by the Series 2003B Bonds.

(3) Principal of \$10,210,500; interest is projected.

(4) Projected principal of \$10,364,500; interest is projected.

Schedule of Annual Principal & Interest Payments
City of Rockville General Obligation Debt
Enterprise Supported Debt⁽¹⁾
As of June 30, 2002 and upon Issuance of the Bonds

Fiscal Year Ending June 30	Existing Debt ⁽²⁾			Series 2003A Bonds ⁽³⁾			Series 2003B Bonds ⁽⁴⁾		Total Enterprise Debt Service
	Water Facility Principal & Interest	Sanitary Sewer Principal & Interest	Refuse Principal & Interest	Sanitary Sewer Principal & Interest	Golf Principal & Interest	Refuse Principal & Interest	Water Facility Principal & Interest	Sanitary Sewer Principal & Interest	
2003	\$ 741,859	\$ 769,468	\$ 53,903	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,565,230
2004	348,822	270,882	53,936	99,576	17,702	116,102	376,924	399,754	1,683,697
2005	348,869	264,038	53,971	116,405	20,694	116,397	374,002	395,745	1,690,122
2006	348,925	257,193	54,008	115,502	20,534	113,567	380,979	405,618	1,696,327
2007	348,975	250,346	54,046	114,600	20,373	110,737	372,062	398,271	1,669,410
2008	349,189	243,500	54,085	113,663	20,207	107,802	359,579	387,053	1,635,078
2009	349,083	266,638	520	218,789	38,896	-	132,829	141,943	1,148,698
2010	349,136	260,092	-	214,743	38,177	-	126,790	136,159	1,125,097
2011	349,303	253,281	-	210,418	37,408	-	73,948	79,355	1,003,712
2012	349,345	246,456	-	205,814	36,589	-	65,012	70,151	973,367
2013	350,196	239,461	-	201,001	35,733	-	34,719	37,606	898,717
2014	350,076	232,295	-	196,048	34,853	-	-	-	813,272
2015	277,755	224,959	-	190,955	33,948	-	-	-	727,617
2016	200,781	217,451	-	185,723	33,017	-	-	-	636,973
2017	200,780	209,773	-	180,352	32,063	-	-	-	622,967
2018	200,780	202,096	-	174,841	31,083	-	-	-	608,800
2019	200,511	194,333	-	169,190	30,078	-	-	-	594,113
2020	-	186,484	-	163,470	29,061	-	-	-	379,016
2021	-	178,814	-	157,610	28,020	-	-	-	364,444
2022	-	-	-	151,681	26,965	-	-	-	178,646
2023	-	-	-	144,571	25,701	-	-	-	170,272
Total	\$ 5,664,384	\$ 4,967,561	\$ 324,469	\$ 3,324,954	\$ 591,103	\$ 564,604	\$ 2,296,845	\$ 2,451,656	\$ 20,185,575

(1) General Obligation debt which is expected to be paid from revenue from the City's Enterprise Fund.

(2) Outstanding enterprise supported debt less amounts refunded by the Series 2003B Bonds.

(3) Principal of \$3,184,500; interest is projected.

(4) Projected principal of \$4,235,500; interest is projected.

Revenue Debt

The City has no revenue debt outstanding.

Short-Term Debt

The City has no short-term debt outstanding. The City has not borrowed for cash flow purposes in the last ten years.

Other Commitments

(a) Washington Suburban Sanitary Commission

The City has contracted with the WSSC to purchase a portion of the capacity of the Blue Plains Wastewater Treatment Plant. Through June 30, 2002, the City had paid approximately \$15,279,453 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The City's remaining contribution through the completion of the project is estimated to be \$16,668,301 for treatment capacity. The City intends to issue bonds to fund most of these costs.

In addition to the capacity cost described above, the WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the City.

(b) Noncapitalized Lease Commitments

The City has no noncapitalized lease commitments.

(c) Capitalized Lease Commitments

The City has no capitalized lease commitments.

Overlapping Debt

Montgomery County is the only taxing jurisdiction overlapping the City which has the power to issue debt. The County's general obligation debt outstanding as of June 30, 2002, is presented in the following table.

Overlapping Debt to the City of Rockville June 30, 2002

	General <u>Obligation Debt</u>	Percentage Applicable to <u>the City</u>	Amount Applicable to <u>the City</u>
Montgomery County ⁽¹⁾	\$1,368,962,005	6.91% ⁽²⁾	\$94,595,275

⁽¹⁾ Excludes county debt not attributable to the City of Rockville.

⁽²⁾ Based on fiscal year 2002 assessed valuations reported by the State of Maryland Department of Assessments and Taxation.

Financial Summary

Fiscal Year 2002 Estimated Assessed Value (full value assessment)		\$5,841,141,388
Total General Obligation Debt as of June 30, 2002 (excludes the Bonds)		\$28,683,517
Levy and Assessment Supported		\$16,771,487
Enterprise Supported		\$11,912,030
Overlapping Debt (as of June 30, 2002)		\$94,595,275
Population (2000 Census)		47,388
Debt Ratios:		
	<u>Per capita</u>	<u>% of Estimated Assessed Value</u>
General Obligation Direct Debt	\$ 605	0.491%
Overlapping Debt	<u>\$1,996</u>	<u>1.620%</u>
Total	<u>\$2,601</u>	<u>2.111%</u>

Demographic and Economic Information

Population Characteristics

The City of Rockville, with an estimated 2003 population of 52,000, is the 5th largest city in the State of Maryland. Rockville experienced the same rapid population growth in the 1950s and 1960s that made the Washington Metropolitan Statistical Area one of the most rapidly growing large metropolitan areas in the nation. The City's population grew from 6,934 in 1950 to 26,090 by 1960 and 42,079 by 1970. Population growth moderated during the 1970s. The following table charts population growth in Rockville and in Montgomery County since 1960.

Population Growth

	<u>City of Rockville⁽¹⁾</u>	<u>Montgomery County</u>
1960	26,090	340,928 ⁽²⁾
1970	42,079	522,809 ⁽²⁾
1980	43,811	579,053 ⁽²⁾
1990	44,835	757,027 ⁽¹⁾
2000	47,388	873,341 ⁽¹⁾
2002	51,464	897,800 ⁽²⁾

⁽¹⁾ U.S. Bureau of the Census

⁽²⁾ Maryland - National Capital Park and Planning Commission

While Rockville's population has continued to grow, the makeup of its population continues to be relatively young with more than 62 percent of residents younger than age 45 in 2000. The distribution of population by age is presented in the table below.

Percent of Total Population by Major Age Group

<u>Age Group</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
19 years and under	48.5	43.9	32.8	25.6	25.4
20 to 44 years	39.1	34.2	40.6	42.5	37.1
45 to 64 years	9.6	17.9	20.3	21.4	24.5
65 years and over	<u>2.9</u>	<u>4.0</u>	<u>6.3</u>	<u>10.5</u>	<u>13.1</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: U.S. Bureau of the Census. (Detail may not add to summations due to rounding.)

Employment Characteristics

The City of Rockville Department of Community Planning and Development Services estimates that in 1980, the number of jobs in Rockville was approximately 30,900. In 1995, there were 48,000 jobs in the City, almost equal to the number of residents.

Employment in the City and in Montgomery County is well diversified, with the largest percentage of employment occurring in services, retail trade and government. The following table presents categories of civilian employment in Montgomery County in 2000 (the most recent year for which statistics are available) compared with 1990.

**Analysis of Change in Montgomery County Civilian At-Place Employment
2000 compared to 1990**

<u>Employment Category</u>	<u>2000</u>	<u>1990</u>	<u>Difference</u>
Private Employment:			
Construction	5.9%	7.0%	-1.1%
Manufacturing	4.5%	4.7%	-0.2%
Retail Trade	16.4%	19.0%	-2.6%
Wholesale Trade	3.0%	3.7%	-0.7%
Finance, Insurance and Real Estate	7.1%	7.3%	-0.2%
Services	41.2%	34.8%	6.4%
Transportation, Communication & Public			
Utilities	3.0%	2.9%	0.1%
Other	<u>1.6%</u>	<u>1.1%</u>	<u>0.5%</u>
Total Private Sector	82.7%	80.5%	2.2%
Government Employment			
Federal	8.8%	11.2%	-2.4%
State	0.2%	0.4%	-0.2%
Local	<u>8.3%</u>	<u>7.9%</u>	<u>0.4%</u>
Total Government	17.3%	19.5%	-2.2%
Grand Total	<u>100.0%</u>	<u>100.0%</u>	

Source: State of Maryland, Department of Labor, Licensing and Regulation

Major Employers

In addition to the Montgomery County and City of Rockville governments, the 10 largest private employers by number of employees are as follows:

Major Private Employers in Rockville

<u>Name of Employer</u>	<u>Latest Estimate of Employees in City</u>
Westat Inc.	1,981
Aspen Systems Corp.	800
Thompson Publishing	461
Hewlett Packard Company	425
Mid Atlantic Medical Services	743
Celera Genomics	400
BAE Systems	280
Northrup-Grumman Information Technologies	317
McKesson HBOC	176
Shire Pharmaceuticals	110

Source: City of Rockville; Greater Rockville Partnership

Income

Income levels in the City of Rockville are among some of the highest in the nation. Sales and Marketing Management's annual "Survey of Buying Power" reported a median household effective buying income ("EBI") for Rockville in 2001 of \$57,943 as compared to a median household EBI for the Montgomery County of \$61,797.

The median household effective buying income was reported by Sales and Marketing Management's "Survey of Buying Power" for the years 1997 through 2001 as follows (information for 2002 is not yet available):

Median Household Effective Buying Income

Year	Median Household EBI	
	<u>City of Rockville</u>	<u>Montgomery County</u>
1997	54,867	55,739
1998	56,306	57,464
1999	58,168	61,127
2000	65,494	65,881
2001	57,943	61,797

The relative distribution of income among Rockville households by income levels for 2001 is presented in the following table.

Distribution of Rockville Households by Income Levels

<u>Income Range</u>	<u>Number of Households</u>	<u>Percentage of Households</u>
Less than \$15,000	1,456	8.4%
\$15,000 - \$29,999	1,722	9.9%
\$30,000 - \$49,999	2,727	15.8%
\$50,000 - \$69,999	3,481	20.2%
\$70,000 - \$99,999	2,700	15.6%
\$100,000 +	<u>5,136</u>	<u>29.8%</u>
Total	<u>17,222</u>	<u>99.7%</u>

Source: Maryland - National Capital Park and Planning Commission.

Retail Sales

Retail sales have grown steadily in the City. Many of the major retail centers in the City are located in the Town Center and along Rockville Pike (Maryland Route 355). A significant percentage of the City's retail trade results from expenditures by individuals living outside the City. The following table summarizes per capita retail sales for the City and County over the last five years.

Retail Sales

Year	<u>Per capita retail sales</u>	
	<u>City of Rockville</u>	<u>Montgomery County</u>
1998	18,443	9,166
1999*	n/a	n/a
2000*	19,027	13,526
2001*	20,717	13,547
2002*	24,424	13,186

Source: Sales and Marketing Management's "Survey of Buying Power" -- 1997 through 2000.

* Beginning with the 2000 edition of "Survey of Buying Power," retail sales figures are estimates of the current year, rather than reported figures for the previous year. Therefore, 1999 retail sales figures are not available.

Economic Development Activity

Land Use

Rockville's land use patterns reflect that of a maturing suburban employment center with stable residential neighborhoods. Many of Rockville's single family residential neighborhoods date from the post-war period through the early 1980s, but there is little available land remaining for this type of development. Most of the future growth will occur within the City's three Comprehensive Planned Developments: Tower Oaks, King Farm and Fallsgrrove. While Tower Oaks is primarily an office park, King Farm and Fallsgrrove represent a new development pattern of dense, mixed-

use, transit-oriented residential development served by a neighborhood retail center, coupled with significant amounts of campus-style office development. Older employment and retail areas such as the Rockville Pike corridor and the Research Boulevard / Piccard Drive areas adjacent to the I-270 corridor are mostly built out, but have been subject to redevelopment efforts which replace older structures or add new buildings to existing sites to create more intense development. The City is also undertaking a major redevelopment of its Town Center, which will ultimately be a mixed-use, pedestrian-oriented downtown area featuring retail, office and residential developments adjacent to the Rockville Metro station.

Vacancy Rates (as of 2002)

<u>Location</u>	Total Square <u>Footage</u>	Available Square <u>Footage</u>	<u>Vacancy Rate</u>
Rockville	11,802,812	679,591	5.76%

Source: CoStar Property, the County's source for commercial real estate information.

Building Permits

The following table presents a summary of new construction and other building permit activity in Rockville for the past five years.

Building Permits

<u>Year</u>	<u>New Residential</u>		<u>New Commercial/Industrial</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
1998	693	\$ 30,288,468	289	\$ 46,304,402
1999	745	27,958,235	294	59,688,703
2000	1,107	58,464,124	306	118,688,703
2001	1,123	77,765,700	328	123,267,284
2002	1,447	107,037,983	331	105,912,932

Source: City of Rockville Community Planning and Development Services.

Development and Growth Goals

The City government encourages new growth by streamlining the permit process for developers and by promoting Rockville as an advantageous location for business. There are not limitations on growth for lack of utilities or public facilities. The City consistently follows its updated Master Plan in zoning and approving new development.

The Master Plan and City policies also promote the preservation of residential neighborhoods through zoning, enforcement of codes, and land-use decisions. All rental units in the City are licensed and inspected for conformance to building codes. The City does not have rent control.

City Growth Areas

A total of 805,992 square feet of office space has been approved for the Irvington Center area of King Farm. Of this total, approximately 560,000 square feet have been built or are currently under construction. In addition, the 125,000 square foot Village Center is built and occupied.

In fiscal year 2000, the Mayor and Council approved a Comprehensive Planned Development (CPD) for the Fallsgrove development (formerly known as the Thomas Farm). The 254-acre

property was approved for 1,530 residential units, 950,000 square feet of office and research and development space, and 150,000 square feet of commercial retail.

The project will ultimately include a large section of the Millenium Trail Bike path, a park, a school site, the first community center west of I-270, and significant open space.

Approximately 150 residences are occupied with detailed application approvals granted for all of the residential units. Falls Grove has stated they will be building 1,411 units. Approval has been granted for approximately 260,000 square feet of office space, with 50,000 square feet constructed. The 145,000 square foot Village Center is also built and occupied.

In July of 2000, the City contracted with Tischler & Associates, Inc. to develop a custom version of their fiscal impact software which would provide a comprehensive view of the direct financial costs and benefits of the City's future planned growth. The analysis looks at three different growth scenarios, based on assumptions about how quickly growth will occur and whether certain annexations will take place, and five separate growth areas. The first Long-Range Fiscal Analysis utilizing the new software was based on the City's fiscal year 2001 budget; the most recent update was based on the fiscal year 2002 budget and covered the period fiscal year 2003 through fiscal year 2013. During this time period, the City estimates a population growth of between 22 and 35 percent, an increase of between 36 and 61 percent in the number of jobs and a concomitant growth in public infrastructure and public services. The analysis indicates that the level of debt needed to finance these improvements would remain within the parameters of existing financial policies and that the growth areas would produce significant incremental revenue in excess of the incremental cost of providing services to the new residential and commercial areas.

Housing

As of fiscal year 2000, more than 75 percent of the City's housing stock was less than 30 years old. Because a majority of homes were built within a relatively short span following World War II, the entire housing stock in several large neighborhoods will approach maturity at the same time. City policy has mandated that careful attention be directed to the conditions of these dwellings and the public improvements made within these areas to maintain the housing quality and the neighborhood environment. The City's policy is to prevent deterioration and encroachment of commercial and industrial development, thus maintaining property values and neighborhood stability.

Another method of preserving neighborhoods is the City's home improvements program. Since 1975, the City has operated a federally funded Community Development Block Grant (CDBG) rehabilitation program under which loans and grants are provided to low and moderate income families who would not normally be able to afford the necessary repairs and improvements to their homes. To date, on average 15 – 20 households per year receive assistance under this program.

Trends in housing prices in Rockville to a large extent reflect those throughout the nation. Currently, the average resale price for homes is approximately \$220,000. New townhomes average \$305,000 and new detached homes average \$481,286. Sixty-one percent of the housing in the City is single family detached.

Rockville negotiated an agreement with WSSC in 1975 which guarantees the City a total of 9.31 mg/d sewer capacity, so there is adequate capacity to accommodate additional housing construction. Any limits on construction activity in Montgomery County due to sewage capacity problems should not restrict development of Rockville.

The following chart shows housing units by decade since 1950.

Dwelling Units Occupied by Year and by Type Selected Years 1960 – 2000					
	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Single Family Detached	5,478	8,537	9,797	10,181	10,487
Single Family Attached	91	86	1,870	1,919	2,755
Multi-Family	—	<u>3,045</u>	<u>3,387</u>	<u>4,212</u>	<u>4,526</u>
Total	<u>5,569</u>	<u>11,668</u>	<u>15,054</u>	<u>16,312</u>	<u>17,768</u>

Source: City of Rockville, Community Planning and Development Services.

Utilities

Electricity

Electric power for Rockville and the surrounding area is provided by the Potomac Electric Power Company (PEPCO).

Gas

Two natural gas transmission pipeline companies (Columbia Gas Transmission and Transcontinental Gas Pipeline Corporation) supply Rockville and surrounding areas with natural gas. The distributor is the Washington Gas Light Company.

Wastewater

The City of Rockville operates its own wastewater collection system serving the entire City except for the two WSSC service areas. Rockville's capacity at the Blue Plains treatment plant in the District of Columbia is 9.3 mg/d; average daily demand in fiscal year 2002 was 6.1 mg/d.

Water

The City of Rockville owns and operates the Sandy Landing Road Water Treatment Plant and distributes water to about 85 percent of the City. The Potomac River is the source of the water. Average demand during fiscal year 2002 was 4.77 mg/d. About 15 percent of the City's residents and businesses receive water service from the WSSC.

Transportation

Rockville is located along one of the major east coast rail and highway routes to the northeast. Interstate 270 bisects the City and is the major route to such industrial centers as Buffalo, Pittsburgh, and Cleveland. Interstate 495 (Capital Beltway) and Interstate 95 provide access to Baltimore, Philadelphia, and New York City. Rail service in Rockville includes Amtrak passenger trains, Baltimore and Ohio freight and passenger service, and six-day commuter rail service. Six other railroads are available in nearby Washington, D.C.

Rockville is within 30 minutes driving time of three major airports: Baltimore-Washington International, Dulles International, and Ronald Reagan Washington National Airport. Private and business aircraft are served by Montgomery County Airpark, 10 minutes north of Rockville.

Rockville is served by the Washington Metropolitan Area Transit Authority's Metrobus system and Metrorail. Several bus lines travel between Montgomery College, the Rockville Town Center, and

downtown Washington, D.C. Other lines provide access between Rockville and suburbs to the east, including the Silver Spring Metrorail station. In addition, a County-operated, neighborhood-oriented 'Ride-On' minibus system has been in operation in Rockville since 1984.

Rockville is served by the Metro rapid transit system which connects Rockville to downtown Washington. Downtown Washington and the greater metropolitan community are easily accessible for those who live and those who work in Rockville. One rapid rail station is located in downtown Rockville, close to the County Government Center and the businesses in the Town Center. A second station, the Twinbrook Station, is located near several residential neighborhoods and the commercial area along Maryland Route 355. Rockville residents are able to travel to downtown Washington in 25 minutes. The combination of service to, from and within Rockville facilitate travel for area employees and shoppers.

Educational Facilities

Primary and Secondary

Public schools in Rockville are operated by the Montgomery County Board of Education. Currently the 19th largest school district in the United States and the 12th fastest growing school district in the nation, the system operates 190 elementary and secondary schools and one and technology career center. The operating budget is \$1.4 billion for fiscal year 2003. The emphasis that the County residents place on education is reflected in per pupil operating expenditures of \$10,175 in fiscal year 2003, and in the high percent of high school graduates who continue formal education. The total MCPS staff complement (full-time) is 20,115, with a student to instructional staff ratio of 12.20:1.

In fiscal year 2003, projected enrollment is 138,796 students, 1.5 percent above the previous year. Between 1985 and 2002, 43 schools have been built or reopened in response to increasing enrollments. Enrollment in the public schools is anticipated to continue to increase, with 142,709 students projected for fiscal year 2005.

Montgomery County Public Schools (MCPS) students continue to score above state and national averages on Scholastic Aptitude Tests. Of MCPS 2002 graduates, 75.5 percent went on to college study after graduation, compared to 60.1 percent of all State graduates. MCPS students in 2002 continue to achieve various forms of academic distinctions, including 57 National Merit Scholars, one Presidential Scholars finalist and three semifinalists, and one Intel Scholar finalist and 10 semifinalists.

Institutions of Higher Education

Montgomery College

Founded in 1946, Montgomery College was the first community college in Maryland. It has grown into a fully accredited institution of higher learning offering a two-year college program. The Rockville campus is the largest of the college's three campuses, with an enrollment of about 14,000. The Rockville campus offers 1,000 courses and 86 curricula and options; the college employs 1,227 staff and faculty members at its Rockville campus (includes full-time and part-time employees).

Area Universities

Eleven major universities offering advanced degree programs in engineering, medical, business and computer sciences are located within commuting distance of Rockville. Included among them are the University of Maryland, Georgetown University, The George Washington University, Johns

Hopkins University, Howard University, Hood College, American University, Catholic University of America, and the University of the District of Columbia.

Recreation and Parks

Rockville has 56 public parks comprising more than 935 acres of parkland. Under its Urban Forestry program, the City maintains more than 20,000 street trees and thousands of trees located on facility grounds and in the parks; Rockville is a Tree City USA. The City operates a Municipal Swim Center with four large pools (indoor/outdoor), a senior center, municipal golf course, a civic center complex, which includes a historical mansion and a 500-seat theater, plus several community recreation centers. Recreation programs for all ages are offered throughout the year, housed in City facilities, and utilizing the eight elementary schools, two middle schools and three high schools. These include sports, dance, arts, crafts, cooking, exercise, lifetime skills and hobbies, and more. Rockville residents enjoy an extensive arts program, including an art gallery, seven resident theater groups, art-in-public places, concert series, and other events. Major special events include Independence Day fireworks; Hometown Holidays, a three-day festival over Memorial Day Weekend; Spirit of Rockville, a celebration of cultures; Antique and Classic Car Show; and the Rockville Rotary Twilight Runfest.

Rockville residents enjoy a variety of private-sector recreational facilities and programs, including two private golf courses and country clubs, a major ice skating arena, indoor children's amusement park, miniature golf, racquetball/squash courts, exercise clubs, and more.

PROPOSED FORMS OF LEGAL OPINIONS

_____, 2003

Mayor and Council of Rockville
Rockville, Maryland

Ladies and Gentlemen:

We have examined certified copies of the legal proceedings and other proofs submitted relative to the issuance and sale by Mayor and Council of Rockville, Maryland (the "City") of \$13,395,000 General Obligation Bonds of 2003, Series A, dated June 1, 2003, maturing annually on March 15 in the years and amounts and bearing interest, payable semi-annually on March 15 and September 15 in each year, first interest March 15, 2004, as follows:

<u>Year of Principal Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year of Principal Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
2004	\$ 670,000		2014	\$ 670,000	
2005	\$ 670,000		2015	\$ 670,000	
2006	\$ 670,000		2016	\$ 670,000	
2007	\$ 670,000		2017	\$ 670,000	
2008	\$ 670,000		2018	\$ 670,000	
2009	\$ 670,000		2019	\$ 670,000	
2010	\$ 670,000		2020	\$ 670,000	
2011	\$ 670,000		2021	\$ 670,000	
2012	\$ 670,000		2022	\$ 670,000	
2013	\$ 670,000		2023	\$ 665,000	

Said bonds (the "Bonds") are issuable as fully registered bonds (without coupons) in the denomination of \$5,000 or any multiple thereof. Payment of the interest on each Bond shall be made by the Bond Registrar on each interest payment date to the person appearing on the bond registration books as the registered owner of such Bond (or the previous Bond or Bonds evidencing the same debt as that evidenced by such Bond) at the close of business on the record date for such interest (the 1st day of the calendar month of such interest payment date) by check or draft mailed to such person at his address as it appears on such registration books. Payment of the principal on all Bonds shall be made to the registered owners upon the presentation and surrender of the Bonds, as the same shall become due and payable, to the Bond Registrar or the paying agent, as provided in the Bonds.

The Bonds maturing on or after March 15, 2014 are subject to redemption prior to their respective maturities at the option of the City, as provided in the Bonds.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the City and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

With respect to the executed and authenticated bond of the issue of Bonds that we have examined, and bonds similarly executed and authenticated and identical thereto in form, except for numbers, interest rates, denominations and maturities, we are of the opinion that:

1. The Bonds are valid and binding general obligations of the City, all the real and tangible personal property subject to assessment for unlimited municipal taxation within the corporate limits of which is subject to the levy of an ad valorem tax, without limitation of rate or amount, to pay the Bonds and the interest thereon.

2. Under existing law of the State of Maryland, the interest on the Bonds and profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, franchise taxes applicable to certain financial institutions, or any other taxes not levied directly on the Bonds or the interest thereon.

3. Under existing law, the interest on the Bonds (i) is excludable from gross income for Federal income tax purposes, and (ii) is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations, and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

In rendering the opinion expressed above in this paragraph (3), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the City (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Bonds) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds.

Other than as set forth in the preceding paragraphs 2 and 3, we express no opinion regarding the federal or state income tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Respectfully submitted,

[to be signed "Venable, Baetjer and Howard, LLP"]

_____, 2003

Mayor and Council of Rockville
Rockville, Maryland

Ladies and Gentlemen:

We have examined certified copies of the legal proceedings and other proofs submitted relative to the issuance and sale by Mayor and Council of Rockville, Maryland (the "City") of \$_____ General Obligation Refunding Bonds of 2003, Series B, dated June 1, 2003, maturing annually on March 15 in the years and amounts and bearing interest, payable semi-annually on March 15 and September 15 in each year, first interest March 15, 2004, as follows:

<u>Year of Principal Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year of Principal Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
2004			2009		
2005			2010		
2006			2011		
2007			2012		
2008			2013		

Said bonds (the "Bonds") are issuable as fully registered bonds (without coupons) in the denomination of \$5,000 or any multiple thereof. Payment of the interest on each Bond shall be made by the Bond Registrar on each interest payment date to the person appearing on the bond registration books as the registered owner of such Bond (or the previous Bond or Bonds evidencing the same debt as that evidenced by such Bond) at the close of business on the record date for such interest (the 1st day of the calendar month of such interest payment date) by check or draft mailed to such person at his address as it appears on such registration books. Payment of the principal on all Bonds shall be made to the registered owners upon the presentation and surrender of the Bonds, as the same shall become due and payable, to the Bond Registrar or the paying agent, as provided in the Bonds.

The Bonds are not subject to optional redemption prior to their respective maturities.

We have examined the law and such certified proceedings and other papers as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the City and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

With respect to the executed and authenticated bond of the issue of Bonds that we have examined, and bonds similarly executed and authenticated and identical thereto in form, except for numbers, interest rates, denominations and maturities, we are of the opinion that:

1. The Bonds are valid and binding general obligations of the City, all the real and tangible personal property subject to assessment for unlimited municipal taxation within the corporate limits of which is subject to the levy of an ad valorem tax, without limitation of rate or amount, to pay the Bonds and the interest thereon.

2. Under existing law of the State of Maryland, the interest on the Bonds and profit realized from the sale or exchange of the Bonds is exempt from income taxation by the State of Maryland

or by any of its political subdivisions; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes, franchise taxes applicable to certain financial institutions, or any other taxes not levied directly on the Bonds or the interest thereon.

3. Under existing law, the interest on the Bonds (i) is excludable from gross income for Federal income tax purposes, and (ii) is not an enumerated preference or adjustment for purposes of the Federal alternative minimum tax imposed on individuals and corporations; however, such interest will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations, and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

In rendering the opinion expressed above in this paragraph (3), we have assumed continuing compliance with the covenants and agreements set forth in the Tax Certificate and Compliance Agreement of even date herewith executed and delivered by the City (the "Tax Agreement"), which covenants and agreements are designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the income tax regulations issued thereunder (the "Regulations") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal tax purposes. In our opinion, the covenants and agreements in the Tax Agreement are sufficient to meet such requirements (to the extent applicable to the Bonds) of the Code and Regulations. However, we assume no responsibility for, and will not monitor, compliance with the covenants and agreements in the Tax Agreement. In the event of noncompliance with such covenants and agreements, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includible in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds.

Other than as set forth in the preceding paragraphs 2 and 3, we express no opinion regarding the federal or state income tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Respectfully submitted,

[to be signed "Venable, Baetjer and Howard, LLP"]

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of June 1, 2003 (the "Disclosure Certificate"), is executed and delivered by Mayor and Council of Rockville, Maryland (the "City") in connection with the issuance of \$13,395,000 General Obligation Bonds of 2003, Series A and \$14,600,000¹ General Obligation Refunding Bonds of 2003, Series B (collectively, the "Bonds"). The City hereby covenants and agrees as follows:

SECTION 1. *Purpose of the Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders from time to time of the Bonds and the beneficial owners from time to time of the Bonds and in order to assist the Underwriter (defined below) in complying with the Rule (defined below).

SECTION 2. *Definitions.* In addition to the definitions set forth above, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City Pursuant to, and as described in, Sections 4 and 5 of this Disclosure Certificate.

"Disclosure Representative" shall mean the Director of Finance of the City or her designee, or such other person as the City shall designate from time to time.

"Dissemination Agent" shall mean the City or any Dissemination Agent designated in writing by the City.

"Listed Events" shall mean any of the events listed in Section 6(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository recognized by the Securities and Exchange Commission for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repositories

P.O. Box 840
Princeton, NJ 08542-0840
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

Interactive Data

Attn: Repository
100 Williams Street
New York, NY 10038
Phone: (212) 771-6899
Fax: (212) 771-7390
Email: NRMSIR@interactivedata.com

¹ Preliminary, subject to change

Standard & Poor's J. J. Kenny Repository

55 Water Street

45th Floor

New York, NY 10041

Phone: (212) 438-4595

Fax: (212) 438-3975

Email: nrmsir_repository@sandp.com

"Repository" shall mean each National Repository and each State Repository. The listing of repositories herein shall be automatically amended from time to time if the Securities and Exchange Commission ("SEC") designates additional or other entities as "Nationally Recognized Municipal Securities Information Repositories" ("NRMSIRs") under the Rule, or if the SEC at any time revokes the designation of an entity as a NRMSIR under the Rule.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no State Repository.

"Underwriter" shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with the offering or sale of the Bonds.

SECTION 3. *Scope of Agreement.*

(a) The disclosure obligations under this Disclosure Certificate relate solely to the Bonds. Such disclosure obligations are not applicable to any other securities issued or to be issued by the City.

(b) The City is the only "obligated person" with respect to the Bonds within the meaning of the Rule.

SECTION 4. *Provision of Annual Reports.* The City shall, not later than March 31 after the end of the Fiscal Year, commencing with the Fiscal Year ending June 30, 2001, provide to each Repository an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Certificate. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report.

SECTION 5. *Content of Annual Reports.* The City's Annual Report shall contain or incorporate by reference the following:

- ⌘ Comprehensive audited financial statements for the immediately preceding fiscal year, prepared in accordance with generally accepted accounting principles; and
- ⌘ the following information provided in the Official Statement prepared and delivered by the City with respect to the Bonds: the Tables listed immediately below utilizing the same accounting standards as were used in preparing such information for the Official Statement and updated as of a date no earlier than the last day of the immediately preceding fiscal year.
 - § Assessed Value of All Taxable Property by Class
 - § Assessed and Estimated Market Value of Taxable Property
 - § Property Tax Rates All Overlapping Governments
 - § Property Tax Levies and Collections
 - § Ten Largest Taxpayers Corporation Real Property Taxes
 - § Ten Largest Taxpayers Corporation Personal Property Taxes

- § Special Assessment Billings and Collections
- § Historical Summary of Bonded Indebtedness
- § General Obligation Debt
- § Schedule of Annual Principal and Interest Payments, City of Rockville General Obligation Debt, Levy and Assessment Supported Debt
- § Schedule of Annual Principal & Interest Payments, City of Rockville General Obligation Debt, Enterprise Supported Debt
- § Overlapping Debt to the City of Rockville

SECTION 6. *Reporting of Significant Events.*

(a) In a timely manner, the City will provide to each Repository and to the Municipal Securities Rulemaking Board, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- ⊄ Principal and interest payment delinquencies;
- ⊄ Non-payment related defaults;
- ⊄ Unscheduled draws on debt service reserves reflecting financial difficulties;
- ⊄ Unscheduled draws on credit enhancements reflecting financial difficulties;
- ⊄ Substitution of credit or liquidity providers or their failure to perform;
- ⊄ Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- ⊄ Modifications to rights of Bondholders;
- ⊄ Bond calls,
- ⊄ Defeasances;
- ⊄ Release, substitution, or sale of property securing repayment of the Bonds; or
- ⊄ Ratings changes.

The City hereby acknowledges that certain of the above-enumerated events do not, and are not ever expected to, apply to the Bonds. Nevertheless, the City intends to provide the Underwriter with complete assistance in complying with the Rule. Therefore, the City covenants to provide notice of all of the above-enumerated events should they occur.

(b) In a timely manner, the City will give to each Repository, or to the Municipal Securities Rulemaking Board and the State Repository (if any), notice of any failure to comply with the covenants set forth herein.

SECTION 7. *Termination of Reporting Obligation.* The City's obligations under this Disclosure Certificate shall terminate when there are no longer any Bonds outstanding.

SECTION 8. *Dissemination Agent.* The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) said amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted by the City;

(b) said provision, as amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the

initial offering of the Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) said amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by nationally recognized bond counsel or by an approving vote of the holders of 25% of the outstanding aggregate principal amount of the Bonds.

SECTION 10. *Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrences of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. *Default.* Failure to comply with this Disclosure Certificate shall not be deemed to be a default or an event of default with respect to the Bonds.

SECTION 12. *Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent (if any), the Underwriter, and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

MAYOR AND COUNCIL OF ROCKVILLE,
MARYLAND

By: _____
Donna J. Boxer
Director of Finance

EXCERPTS FROM THE CITY'S 2002 COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF ROCKVILLE, MARYLAND

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2002

(With Comparative Totals for 2001)

	Governmental Fund Types				Proprietary Fund Type Enterprise	Fiduciary Fund Type Trust	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects			General Fixed Assets	General Long-Term Debt	2002	2001
Assets and Other Debits										
Equity in pooled cash and cash equivalents (Note 2)	\$ 8,116,948	\$ 582,186	\$ 2,702,220	\$ -	\$ 18,310,084	\$ -	\$ -	\$ -	\$ 29,711,438	\$ 27,559,681
Investments (Note 2)	-	-	-	-	-	47,623,821	-	-	47,623,821	48,099,276
Property taxes receivable, net (Note 3)	959,683	-	-	-	-	-	-	-	959,683	251,795
Accounts receivable, net	155,935	296,115	-	-	2,349,585	-	-	-	2,801,635	3,056,792
Interfund receivable (Note 4)	2,415,663	-	-	-	-	-	-	-	2,415,663	712,612
Due from other governments (Note 5)	2,092,068	-	-	-	-	-	-	-	2,092,068	2,472,145
Assessments receivable	-	-	23,860	-	21,952	-	-	-	45,812	48,488
Other assets	1,000,042	1,925	54,196	212,194	85,513	-	-	-	1,353,870	1,552,348
Unbilled assessments receivable	-	-	2,746,165	-	512,066	-	-	-	3,258,231	3,645,493
Fixed assets, net (Note 7)	-	-	-	-	35,270,822	-	43,349,294	-	78,620,116	77,169,699
Purchased capacity, (Note 6)	-	-	-	-	15,058,143	-	-	-	15,058,143	13,787,998
Amounts available for retirement of debt	-	-	-	-	-	-	-	2,372,116	2,372,116	987,622
Amounts to be provided for compensated absences and retirement of debt	-	-	-	-	-	-	-	15,961,712	15,961,712	18,587,498
Total assets and other debits	\$14,740,339	\$ 880,226	\$5,526,441	\$ 212,194	\$71,608,165	\$47,623,821	\$43,349,294	\$18,333,828	\$202,274,308	\$197,931,447
Liabilities, Equity and Other Credits										
Liabilities										
Accounts payable	\$ 667,600	\$ 59,609	\$ -	\$ 1,018,981	\$ 1,452,228	\$ -	\$ -	\$ -	\$ 3,198,418	\$ 3,719,222
Interfund payable (Note 4)	-	156,839	-	2,124,596	134,228	-	-	-	2,415,663	712,612
Accrued liabilities	903,315	-	-	-	851,013	-	-	1,562,341	3,316,669	2,986,036
Deferred revenue	1,891,989	77,770	2,770,025	7,500	82,136	-	-	-	4,829,420	4,822,291
Retainages payable	-	-	-	321,948	27,944	-	-	-	349,892	229,735
Deposits and other liabilities	452,311	9,300	384,300	-	13,627	-	-	-	859,538	836,773
Long-term debt (Note 8)	-	-	-	-	11,736,799	-	-	16,771,487	28,508,286	26,805,585
Total liabilities	\$ 3,915,215	\$ 303,518	\$3,154,325	\$ 3,473,025	\$14,297,975	\$ -	\$ -	\$18,333,828	\$ 43,477,886	\$ 40,112,254
Equity and Other Credits										
Contributed capital (Notes 10 & 11)	-	-	-	-	23,083,420	-	-	-	23,083,420	23,485,649
Investment in general fixed assets	-	-	-	-	-	-	43,349,294	-	43,349,294	41,647,002
Retained earnings:										
Reserved for debt payment (Note 11)	-	-	-	-	378,517	-	-	-	378,517	378,517
Unreserved	-	-	-	-	33,848,253	-	-	-	33,848,253	31,588,337
Fund balances: (Note 11)										
Reserved for encumbrances	193,867	-	-	2,333,479	-	-	-	-	2,527,346	4,986,185
Reserved for self insurance deposit	261,393	-	-	-	-	-	-	-	261,393	261,393
Reserved for inventory	297,783	-	-	-	-	-	-	-	297,783	259,586
Reserved for advance	350,000	-	-	-	-	-	-	-	350,000	350,000
Reserved for debt service	-	-	2,372,116	-	-	-	-	-	2,372,116	987,622
Reserved for employees' pension benefits	-	-	-	-	-	47,623,821	-	-	47,623,821	48,099,276
Unreserved:										
Designated for future expenditures	592,906	-	-	-	-	-	-	-	592,906	2,316,817
Undesignated	9,129,175	576,708	-	(5,594,310)	-	-	-	-	4,111,573	3,458,809
Total equity and other credits	\$10,825,124	\$ 576,708	\$ 2,372,116	\$(3,260,831)	\$57,310,190	\$47,623,821	\$43,349,294	\$ -	\$158,796,422	\$157,819,193
Total liabilities, equity and other credits	\$14,740,339	\$ 880,226	\$ 5,526,441	\$ 212,194	\$71,608,165	\$47,623,821	\$43,349,294	\$18,333,828	\$202,274,308	\$197,931,447

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Cash Flows Proprietary Fund Type For the Year Ended June 30, 2002 (With Comparative Totals for 2001)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash received from customers	\$15,691,681	\$14,104,396
Cash payments to suppliers for goods and services	(6,741,447)	(6,287,797)
Cash payments to employees for services	<u>(5,624,709)</u>	<u>(5,143,935)</u>
Net cash provided by operating activities	\$ 3,325,525	\$ 2,672,664
Cash flows from noncapital financing activities:		
Cash received from general fund	<u>72,387</u>	<u>135,425</u>
Net cash provided by noncapital financing activities	\$ 72,387	\$ 135,425
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,719,476)	(2,074,127)
Purchased capacity cost	(1,292,275)	(1,607,628)
Principal paid on general obligation bond maturities and equipment contracts	(868,253)	(817,293)
Interest paid on general obligation bonds and equipment contracts	(484,459)	(391,058)
Proceeds (including interest) from special assessments	208,419	240,620
Proceeds from the sale of bonds	<u>3,884,653</u>	<u>898,118</u>
Net cash used by capital and related financing activities	\$ (271,391)	\$(3,751,368)
Cash flows from investing activities - interest on investments	<u>668,361</u>	<u>685,081</u>
Net increase (decrease) in cash and cash equivalents	\$ 3,794,882	\$ (258,198)
Cash and cash equivalents at beginning of year	<u>14,515,202</u>	<u>14,773,400</u>
Cash and cash equivalents at end of year	<u>\$18,310,084</u>	<u>\$14,515,202</u>

(Continued)

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Cash Flows (Continued) Proprietary Fund Type For the Year Ended June 30, 2002 (With Comparative Totals for 2001)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>2002</u>	<u>2001</u>
Operating income	\$ 1,853,892	1,272,376
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,063,470	1,927,793
Changes in assets and liabilities:		
(Increase) in accounts receivable	(100,394)	(199,191)
(Decrease) in accounts payable	(614,936)	(119,152)
Increase in accrued liabilities	111,721	15,166
Increase in deferred revenue	3,701	5,105
Increase (decrease) in retainages payable	6,671	(229,433)
Increase in deposits and other liabilities	<u>1,400</u>	<u>-</u>
Total adjustments	<u>\$ 1,471,633</u>	<u>\$ 1,400,288</u>
Net cash provided by operating activities	<u>\$ 3,325,525</u>	<u>\$ 2,672,664</u>

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Net Assets Pension Trust Funds June 30, 2002 (With Comparative Totals for 2001)

	2002			
	Defined Contribution Option	Defined Benefit Option	Total	2001
<u>Assets</u>				
Investments at fair value - equity in pooled pension trust fund	<u>\$6,397,920</u>	<u>\$41,225,901</u>	<u>\$47,623,821</u>	<u>\$48,099,276</u>
<u>Liabilities</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Net Assets</u>				
Available for plan benefits	<u>\$6,397,920</u>	<u>\$41,225,901</u>	<u>\$47,623,821</u>	<u>\$48,099,276</u>

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Combined Statement of Changes in Net Assets

Pension Trust Funds

For the Year Ended June 30, 2002

(With Comparative Totals for 2001)

2002.....			
	Defined Contribution Option	Defined Benefit Option	Total	2001
<u>Additions</u>				
Contributions				
Employer	\$ 348,512	\$ 814,928	\$ 1,163,440	\$ 1,091,332
Plan members	<u>697,025</u>	<u>573,772</u>	<u>1,270,797</u>	<u>1,182,204</u>
Total contributions	<u>\$ 1,045,537</u>	<u>\$ 1,388,700</u>	<u>\$ 2,434,237</u>	<u>\$ 2,273,536</u>
Investment Income				
Demutualization income	\$ 226,551	\$ 1,636,232	\$ 1,862,783	\$ -
Investment income	<u>(193,710)</u>	<u>(1,703,034)</u>	<u>(1,896,744)</u>	<u>359,137</u>
Total investment income (loss)	<u>\$ 32,841</u>	<u>\$ (66,802)</u>	<u>\$ (33,961)</u>	<u>\$ 359,137</u>
Total additions	<u>\$ 1,078,378</u>	<u>\$ 1,321,898</u>	<u>\$ 2,400,276</u>	<u>\$ 2,632,673</u>
<u>Deductions</u>				
Benefits	\$ -	\$ 2,100,570	\$ 2,100,570	\$ 1,591,067
Refunds to terminated employees	319,138	438,510	757,648	593,601
Administrative expense	<u>15,619</u>	<u>1,894</u>	<u>17,513</u>	<u>64,209</u>
Total deductions	<u>\$ 334,757</u>	<u>\$ 2,540,974</u>	<u>\$ 2,875,731</u>	<u>\$ 2,248,877</u>
Net increase (decrease)	743,621	(1,219,076)	(475,455)	383,796
Net assets available for plan benefits, July 1	<u>5,654,299</u>	<u>42,444,977</u>	<u>48,099,276</u>	<u>47,715,480</u>
Net assets available for plan benefits, June 30	<u>\$6,397,920</u>	<u>\$41,225,901</u>	<u>\$47,623,821</u>	<u>\$48,099,276</u>

See the accompanying notes to the general purpose financial statements.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Rockville, Maryland (the "City"), was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. Rockville has a population of 47,388 and a land area of 13.03 square miles. According to the 2000 census, Rockville is the fourth largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large members. Services provided include water, sewer, refuse, streets and drainage, recreation and parks, police, planning and zoning, community development, and community services. Schools, libraries, social services, and fire protection are provided by Montgomery County, Maryland.

A. Financial Reporting Entity

For financial reporting purposes, the general purpose financial statements include the various departments governed directly by the Mayor and Council. The City's officials are also responsible for appointing the board of directors of the Rockville Housing Authority, but the City's accountability does not extend beyond making the appointments.

B. Fund Accounting

The accounts of the City are organized into funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures (or expenses, as appropriate). Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be expended and the means by which spending activities are controlled. The following fund types and account groups are used by the City:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental funds:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by legal and regulatory provisions or budgeted contributions from outside sources to finance specific activities.

Debt Service Fund - The debt service fund, which includes special assessments, is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The capital projects fund is used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(1) Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Trust Fund - The trust funds are used to account for assets held by the City in a trustee capacity.

The City's pension funds are included as a trust fund and accounts for the contributions made by the City and its employees to finance future pension payments. The funds are accounted for and reported in a manner similar to proprietary funds since capital maintenance is critical.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the City, other than those accounted for in the enterprise funds.

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City except that accounted for in the enterprise funds.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(1) Summary of Significant Accounting Policies (Continued)

C. Bases of Accounting

GOVERNMENTAL FUND TYPES

The modified accrual basis of accounting is followed by the governmental funds, as well as the "current resources measurement focus." Under this method of accounting, revenue is recorded when susceptible to accrual, i.e., when measurable and available for the funding of current operations.

In applying the susceptible to accrual concept to real and personal property tax revenue recognition, "available" means property tax revenue is recognized currently if levied before fiscal year end and collected by intermediaries within 60 days after fiscal year-end. Such taxes levied but uncollected within 60 days after fiscal year-end are accounted for as deferred revenue as of June 30, 2002. The above treatment applies as well to assessments receivable. Assessments receivable result from special assessments levied against the property users who benefit from particular capital projects. Such revenues are accrued if they pertain to the current year and become available within 60 days after fiscal year-end. Assessments receivable (billed and unbilled) that are not available to fund current operations have been accounted for as deferred revenue.

Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues are recorded as revenues when cash is received because they are generally not measurable until that point.

Revenue from other governments which represent reimbursements for specific projects or programs are recognized based upon the expenditures recorded. Revenues from other governments received but not earned and the note receivable in the General Fund are recorded as deferred revenue. Other revenue from other governments are accrued if they pertain to the current year and become available within 60 days after fiscal year end. The county tax duplication payment represents Montgomery County, Maryland's payment for City services for which the county collects taxes.

Investment earnings are recognized as revenue as earned in all fund types.

Expenditures are recorded when the related fund liability is incurred except for debt service, which is recognized when due.

PROPRIETARY AND FIDUCIARY FUND TYPES

All proprietary funds and the pension trust funds follow the accrual basis of accounting, as well as the "economic resources measurement focus." Under this method of accounting, revenues are recognized when earned, and expenses are recorded when incurred. The revenue of the utility operations, which is based on service rates authorized by the Mayor and Council, is determined by quarterly billings for residential and most commercial accounts and by monthly billings for approximately 100 of the larger commercial accounts. Earned but unbilled revenues are accrued and reported in the financial statements.

In proprietary funds, governments may choose not to implement pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, (provided that this is applied on a consistent basis) or to continue to follow FASB standards for these fund types. The City has elected not to implement FASB pronouncements issued after that date for its proprietary fund type activities.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(1) Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to June 1, the city manager submits to the Mayor and Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are then conducted to review the budget.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The budget ordinance becomes effective July 1 and provides spending authority for the operations of the City government. The legal control which the budget ordinance establishes over spending is at the fund level. Each of the general, special revenue, debt service and enterprise funds have legally adopted annual budgets appropriated at the fund level. The capital budget is adopted at the fund level but is not adopted as an annual budget.
- The city manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Mayor and Council.
- Subsequent to passage of the budget ordinance, the Mayor and Council may approve supplemental appropriations. During FY 2002, such supplemental appropriations for all funds amounted to \$5,044,105.

At the end of the fiscal year, unexpended operating budget appropriations of the governmental funds lapse. Budgets for the general, special revenue, debt service, and enterprise funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, all governmental fund budgets are presented on the modified accrual basis of accounting; the enterprise fund budgets are adopted on the full accrual basis. The combined statement of revenue, expenditures and changes in fund balances - revised budget and actual - general, special revenue, and debt service funds, presents actual expenditures on a basis consistent with the legally adopted budgets as amended.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is an extension of formal budgetary control in all governmental funds. The encumbrances outstanding at June 30, 2002, are reported as reservations of applicable fund balances and are subject to reappropriation by Council ordinance in the succeeding fiscal year.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(1) Summary of Significant Accounting Policies (Continued)

F. Cash and Investments

To facilitate effective management of the City's resources, substantially all operating cash is combined in one pooled account. Pension trust fund assets are separately managed by the Principal Mutual Life Insurance Company. Pension trust fund investments are stated at fair value and short-term investments of one year or less included in the City's equity in pooled cash and cash equivalents are stated at amortized cost plus accrued interest. These short term investments include repurchase agreements and U.S. Treasury securities.

For purposes of the statement of cash flows, the proprietary fund type reflects all monies in the City's cash management pool as cash equivalents.

Interest income earned on City investments is allocated among the funds each month on a pro rata basis in accordance with average equity in pooled cash balances for the previous six months.

G. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounts to \$1,021,947 at June 30, 2002, and is composed of the following:

General fund property taxes receivable	\$1,000,080
Enterprise fund utility billings receivable	<u>21,867</u>
	<u>\$1,021,947</u>

H. Inventory

All City inventories (included in other assets in the combined balance sheet) are maintained on a consumption basis of accounting and are valued at cost on a first-in, first-out basis and consist of either goods held for resale (Swim Center fund) or goods and materials used in providing services (general fund). Reservations of fund balances for the amounts of general fund inventories have been made to reflect the non-availability of those amounts for appropriation in the general fund.

I. General Fixed Assets

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at historical cost in the general fixed assets account group. Contributed fixed assets are recorded in the general fixed assets account group at fair market value at the time received. The City's public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks and lighting systems are not capitalized, as these assets are immovable and of value only to the City. No depreciation has been provided for general fixed assets.

J. Proprietary Fixed Assets

Fixed assets purchased by the proprietary fund type are stated at historical cost. Donated property is recorded at market value as of the date of donation. It is the City's policy to capitalize enterprise fund infrastructure consisting of water and sewer construction costs, in order to reflect the full asset base.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(1) Summary of Significant Accounting Policies (Continued)

J. Proprietary Fixed Assets (Continued)

Depreciation has been recorded over the following estimated useful lives, using the straight line method:

Description	Lives (In Years)
Buildings and structures	40-50
Machinery and equipment	5-10
Furniture and fixtures	7-10
Automobiles and trucks	5-7
Water and sewer infrastructure	20-50
Storm water management facilities	20-50

Depreciation applicable to assets purchased with externally funded contributed capital is charged to operations and then transferred to contributed capital.

K. Purchased Capacity

Purchased capacity, which consists of payments made under an intermunicipal agreement with the District of Columbia Blue Plains Wastewater Treatment Plant (Blue Plains) for improvements to treatment facilities owned and operated by Blue Plains, is stated at historical cost. Amortization, which commences upon substantial completion of each project, is recorded over 50 years, the estimated useful life of the improvements.

L. Compensated Absences

Liabilities for compensated absences (annual and sick leave benefits) are accrued when vested. The current portion of the governmental funds' compensated absences liabilities is recorded as accrued liabilities in the general and special revenue funds. The noncurrent portion of such liabilities is \$1,562,341 at June 30, 2002, and is recorded in the general long-term debt account group. The total accrued liability for compensated absences for the enterprise funds is recorded separately in the respective funds.

M. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and employee health benefits.

The City participates in the Montgomery County Liability and Property Coverage self-insurance fund, under which participants share coverage for worker's compensation, comprehensive general, automobile and professional liability, fire and theft, and the liability for errors, omissions and other selected areas that require coverage. The Montgomery County Division of Risk Management is the administrator of the fund. The City pays an annual premium to Montgomery County for its insurance coverage.

The City continues to carry commercial insurance for employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(1) Summary of Significant Accounting Policies (Continued)

N. Total Columns on Combined Financial Statements

Total columns on the combined financial statements are captioned "memorandum only" to indicate that they are presented to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation.

O. Reclassifications

Certain reclassifications have been made to the June 30, 2001, comparative financial data to conform to the June 30, 2002, presentation.

(2) Cash and Investments

The City maintains a cash and investment pool that is available for use by all of the City's funds, except the pension trust funds.

Deposits - At year-end, the carrying amount of the City's deposits was a deficit of \$1,099,438, and the bank balance was a deficit of \$334,626. The bank balance would normally be covered by federal depository insurance, but since there is a deficit balance, this does not apply.

Investments - The City is authorized to invest in any and all types of investments except where specifically prohibited by Maryland statutes. Maryland state law requires that all collateral be backed up by the full faith and credit of the federal government, including repurchase agreements which are supported by federal obligations. The Mayor and Council of Rockville recognize that their authority to invest the public funds of the City derives from Section 6-222 of the State of Maryland's Finance and Procurement Article, as well as Article 95, Section 22-22N of the Annotated Code of Maryland. Authority to invest City funds in compliance with the provisions of these State statutes is delegated to the Director of Finance.

The manager of the pension plan maintains the assets and invests them in pooled funds in accordance with contractual provisions. Accordingly, the investment amount of \$47,623,821 is not categorized below.

The City's remaining investments are summarized below by type and carrying amount at year-end. Such investments are insured or registered or the related securities are held by the City or its safekeeping agent in the City's name.

Repurchase agreements and U.S. Treasury securities	\$16,479,894
Federal Home Loan Mortgage Corporation	6,999,019
Federal Home Loan Bank Securities	<u>7,331,963</u>
	<u>\$30,810,876</u>

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(3) Property Taxes

Taxes on real property and business personal property are levied on property values as assessed on January 1, billed on July 1, and payable either by September 30 or in two equal installments on September 30 and December 31. Montgomery County, Maryland, bills and collects property taxes for the City and remits cash collections to the City once a month. Property taxes are attached as an enforceable lien on the underlying properties as of the succeeding June 1 and are thereafter sold at public auction.

Real and personal property taxes are levied at rates enacted by the Mayor and Council in the annual budget ordinance on the assessed value as determined by the Maryland State Department of Assessments and Taxation. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public hearings.

The real property tax rate was \$0.322 per \$100 of assessed value and the personal property tax rate was \$.805 per \$100 of assessed value in fiscal year 2002. The City charges taxpayers interest (at the rate of 2/3 of 1 percent per month) and penalty (1 percent per month) on all overdue taxes.

(4) Interfund Balances

The interfund receivables and payables as of June 30, 2002 consist of the following:

	<u>Interfund Receivable-General Fund</u>
<u>Interfund Payable</u>	<u>Total</u>
Special Revenue Fund:	
Community Development Block Grant Fund	\$ 156,839
Capital Projects Fund	2,124,596
Enterprise Fund:	
RedGate Golf Course Fund	<u>134,228</u>
Total	<u>\$2,415,663</u>

(5) Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2002, include:

	<u>General Fund</u>
Maryland State Government	\$1,260,528
Montgomery County, Maryland	<u>831,540</u>
Total	<u>\$2,092,068</u>

At June 30, 2002, the General Fund receivables of \$2,092,068 due from other governments consisted primarily of personal, corporate, and real property taxes, gas and motor vehicle taxes, state income taxes, and admissions and amusement taxes and various grants.

(6) Purchased Capacity

Purchased capacity consists of payments made under an intermunicipal agreement with Blue Plains for improvements to treatment facilities owned and operated by the District of Columbia. This agreement consists of two contracts, one substantially complete as of June 30, 1992, and the other contract estimated for completion by the year 2010 (see Note 13a).

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(6) Purchased Capacity (Continued)

Changes in purchased capacity are as follows:

	Balance July 1, 2001	Additions	Amortization	Balance June 30, 2002
Blue Plains	\$13,787,998	\$1,292,775	\$22,130	\$15,058,143

(7) Fixed Assets

A summary of changes in the general fixed assets account group during 2002 follows:

	Balance July 1, 2001	Additions	Capitalization of Completed Projects/Transfers	Disposals	Balance June 30, 2002
Land	\$ 7,886,011	\$ -	\$ -	\$ -	\$ 7,886,011
Buildings	11,778,108	-	2,425,466	-	14,203,574
Improvements other than buildings	4,909,943	-	-	-	4,909,943
Equipment	9,652,251	1,008,648	-	766,653	9,894,246
Construction in progress	7,420,689	1,460,297	(2,425,466)	-	6,455,520
Total	\$41,647,002	\$2,468,945	\$ -	\$766,653	\$43,349,294

A summary of proprietary fund type property, plant, and equipment at June 30, 2002 follows:

Land	\$ 2,067,186
Buildings	4,487,351
Improvements other than buildings	49,290,721
Equipment	4,777,219
Construction in progress	2,145,902
Total	\$62,768,379
Less - accumulated depreciation	(27,497,557)
Net	\$35,270,822

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(8) Long-term Debt

The following is a summary of changes in the City's long-term debt for the year ended June 30, 2002:

	Balance June 30, 2001	Additions	Change In Accrued Obligations for Compensated Absences	Principal Payments	Net Amortization of Bond Discount	Balance June 30, 2002	Remaining Unamortized Bond Discount June 30, 2002
General Long-Term Debt Account Group							
General obligation bonds	\$18,104,107	\$2,545,876	\$ -	\$3,878,496	\$ -	\$16,771,487	\$ -
Accrued obligations for compensated absences	1,471,013	-	91,328	-	-	1,562,341	-
Total general long-term debt	\$19,575,120	\$2,545,876	\$ 91,328	\$3,878,496	\$ -	\$18,333,828	\$ -
Enterprise Funds							
Water facility fund	\$ 5,938,625	\$ 353,155	\$ -	\$ 402,812	\$ 8,942	\$ 5,897,910	\$ 56,021
Sanitary sewer fund	2,762,853	3,232,859	-	424,815	(10,206)	5,560,691	116,769
Refuse fund	-	321,265	-	40,626	(2,441)	278,198	2,441
Total enterprise funds	\$ 8,701,478	\$3,907,279	\$ -	\$ 868,253	\$ (3,705)	\$11,736,799	\$175,231

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(8) Long-term Debt (Continued)

The following is a list of the bonds and notes included in the City's long-term debt at June 30, 2002:

<u>Description</u>	<u>Year of Issuance</u>	<u>Outstanding Principal</u>	<u>Interest Rate Range</u>	<u>Year of Final Maturity</u>
<u>General Long-Term Debt</u>				
General improvements	1993	\$10,359,451	4.5-5.25%	2012
General improvements	1993	1,650,000	4.5-5.25%	2013
General improvements	1998	1,455,000	3.5-4.3%	2013
General improvements - Equipment	1999	279,212	4.17-4.53%	2006
General improvements - Equipment	2000	598,431	4.17-4.53%	2007
General improvements	2002	<u>2,429,393</u>	4.00-4.65%	2021
Total general long-term debt		<u>\$16,771,487</u>		
<u>Enterprise Funds</u>				
General improvements - Water	1993	\$ 995,000	4.5-5.25%	2013
General improvements	1993	3,915,549	4.5-5.25%	2012
General improvements	1999	2,478,452	3.21%	2019
General improvements	2000	1,056,192	3.64%	2020
General improvements	2002	101,230	1.90%	2023
General improvements	2002	<u>3,365,607</u>	4.00-4.65%	2021
Total enterprise funds long-term debt		<u>\$11,912,030</u> ¹		

The City anticipates that all amounts required for payment of interest and principal on enterprise fund debt will be provided from the respective fund's revenues and that amounts required for payment of interest and principal on special assessment general improvement bonds will be provided from the collection of assessments levied against property owners; however, the bonds are further secured by the full faith and credit and unlimited taxing power of the City.

¹ Amount does not include unamortized bond discount of \$175,231

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(8) Long-Term Debt (Continued)

Debt service requirements on the foregoing debt are payable during future years as follows:

	<u>General Long-Term Debt Service Requirements</u>		
Fiscal Year Ending <u>June 30</u>	<u>General Obligation Bonds</u>		Total General Long-Term Debt Principal and <u>Interest</u>
	<u>Principal</u>	<u>Interest</u>	
2003	\$ 2,026,135	\$ 771,97	\$ 2,798,106
2004	2,017,653	681,009	2,698,662
2005	2,048,790	588,657	2,637,447
2006	2,069,307	494,380	2,563,687
2007	2,021,015	397,569	2,418,584
2008	1,996,583	303,934	2,300,517
2009	878,786	208,263	1,087,049
2010	878,396	167,014	1,045,410
2011	654,948	126,191	781,139
2012	655,501	95,113	750,614
2013	449,230	69,194	518,424
2014	134,383	48,579	182,962
2015	134,383	42,801	177,184
2016	134,383	36,888	171,271
2017	134,383	30,841	165,224
2018	134,383	24,794	159,177
2019	134,383	18,679	153,062
2020	134,383	12,498	146,881
2021	<u>134,462</u>	<u>6,249</u>	<u>140,711</u>
Total	<u>\$16,771,487</u>	<u>\$4,124,624</u>	<u>\$20,896,111</u>

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(8) Long-Term Debt (Continued)

Enterprise Funds Debt Service Requirements

Fiscal Year Ending June 30	Water Facility		Sanitary Sewer		Refuse		Total Enterprise Funds Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ 464,211	\$ 277,648	\$ 510,983	\$ 258,485	\$ 42,267	\$11,636	\$ 1,565,230
2004	469,220	258,755	509,739	236,392	43,975	9,961	1,528,042
2005	482,654	239,210	513,460	213,687	45,751	8,220	1,502,982
2006	498,247	218,719	519,558	190,192	47,600	6,408	1,480,724
2007	512,342	197,161	523,914	165,987	49,523	4,523	1,453,450
2008	528,507	174,723	528,851	141,169	51,523	2,562	1,427,335
2009	555,267	151,191	548,874	115,454	-	520	971,306
2010	562,201	137,052	545,031	99,205	-	-	943,489
2011	563,054	122,747	540,617	82,664	-	-	739,082
2012	570,748	108,219	530,617	75,839	-	-	725,423
2013	550,516	94,405	520,617	68,844	-	-	684,382
2014	569,214	80,862	510,617	61,678	-	-	582,371
2015	519,975	57,780	500,617	54,342	-	-	502,714
2016	568,712	32,069	500,617	46,834	-	-	418,232
2017	574,127	26,653	500,617	39,156	-	-	410,553
2018	579,717	21,063	500,617	31,479	-	-	402,876
2019	585,219	15,292	500,617	23,716	-	-	394,844
2020	-	-	500,617	15,867	-	-	186,484
2021	-	-	500,617	7,934	-	-	178,814
Total	<u>\$5,953,931</u>	<u>\$2,213,549</u>	<u>\$5,677,460</u>	<u>\$1,928,924</u>	<u>\$280,639</u>	<u>\$43,830</u>	<u>\$16,098,333</u>

Note: Principal amounts do not include unamortized bond discount of \$175,231.

(9) Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2002, \$13,633,700 of bonds outstanding are considered defeased, \$3,776,200 pertaining to bonds that were accounted for in an enterprise fund, and \$9,857,500 relating to general obligations that were accounted for within the general long-term debt account group. In accordance with the applicable bond indentures, the trustees will continue to extinguish the defeased debt until 2011.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(10) Contributed Capital

A summary of changes in the Enterprise Funds' Contributed Capital is as follows:

	Water Facility Fund	Sanitary Sewer Fund	Storm Water Management Fund	RedGate Golf Course Fund	Total
<u>Contributed Capital</u>					
Balance, July 1, 2001	\$7,964,441	\$6,873,850	\$7,599,797	\$1,047,561	\$23,485,649
Less depreciation charged directly against contributed capital	<u>187,972</u>	<u>158,177</u>	<u>56,080</u>	<u>-</u>	<u>402,229</u>
Balance, June 30, 2002	<u>\$7,776,469</u>	<u>\$6,715,673</u>	<u>\$7,543,717</u>	<u>\$1,047,561</u>	<u>\$23,083,420</u>

(11) Fund Balances

Fund balance reserved for encumbrances and inventory are described in note one. The reserve for pension plan benefits reflects the segregation of these amounts in separate trust funds. The reserve for advance represents contractual obligations.

An insurance deposit which enables the City to participate in the Montgomery County Self Insurance program is reserved in recognition of the fact that this amount is not currently available for appropriation. This amount is included in other assets on the combined balance sheet.

Debt Payment - These monies are reserved for 12 months of principal and interest payments of the Enterprise Funds.

Debt Service - These monies are reserved for future debt payments.

Future Expenditures - These monies are designated for expenditures and capital projects, which have been approved by the Mayor and Council for FY03 and beyond.

The Capital Projects Fund has an accumulated fund balance deficit at June 30, 2002 of \$3,260,831, which will be funded in FY 03 with the issuance of general obligation bonds. Also, on July 1, 2001 the Swim Center Fund, a Special Revenue Fund, merged with the General Fund. This merger was completed via a residual equity transfer as a deficit to the General Fund in the amount of \$591,987.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(12) Segment Information for Enterprise Funds

The City maintains six enterprise funds. Four are utility funds, which provide water, sewer, refuse, and storm water management. The Parking fund accounts for present and future parking needs for the City's Town Center. The other fund is the Golf Course fund, which accounts for income from the City golf course and related expenses. Selected financial data, as of and for the year ended June 30, 2002, for these funds is shown below.

	<u>Enterprise Funds</u>						
	<u>Water Facility Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Refuse Fund</u>	<u>Storm Water Management Fund</u>	<u>Parking Fund</u>	<u>RedGate Golf Course Fund</u>	<u>Total</u>
Charges for services	\$ 2,893,302	\$ 4,756,933	\$3,260,552	\$ 1,536,826	\$287,002	\$ 1,163,681	\$13,898,296
Depreciation and amortization	908,282	522,849	319,505	115,615	-	197,219	2,063,470
Operating income (loss)	152,251	1,799,100	(833,272)	851,012	88,422	(203,621)	1,853,892
Total nonoperating income (expenses)	(139,590)	(190,109)	22,330	260,915	14,607	(1,150)	(32,997)
Operating transfers in	-	-	36,792	-	-	-	36,792
Net income (loss)	12,661	1,608,991	(774,150)	1,111,927	103,029	(204,771)	1,857,687
Fixed asset additions and deletions, net	947,230	154,919	266,408	3,449	17,048	173,993	1,563,047
Total assets	23,001,361	28,986,685	2,622,998	13,556,833	664,351	2,775,937	71,608,165
Net working capital	3,458,574	2,470,255	1,019,249	10,110,275	600,137	(447,862)	17,210,628
Bonds and other long-term liabilities payable from revenue	5,433,699	5,049,708	235,931	-	-	-	10,719,338
Total equity	16,422,336	22,350,009	2,025,327	13,521,609	663,109	2,327,800	57,310,190

(13) Commitments

(a) Washington Suburban Sanitary Commission (WSSC)

The City has contracted with the WSSC to purchase a portion of the capacity of the Blue Plains Waste Water Treatment Plant. Through June 30, 2002, the City had paid \$15,279,453 as its contractual share of the construction costs of the treatment facility and the related sewer transmission lines. The City's remaining contribution through the completion of the project is estimated to be \$16,668,301 for treatment capacity. The City intends to issue bonds to fund most of these costs.

The City has no direct ongoing equity interest in WSSC's assets and liabilities. Furthermore, the City has no significant influence over the management of the treatment facilities. Accordingly, the City does not record this contractual arrangement as a joint venture.

In addition to the capacity cost described above, the WSSC charges the City a portion of its operating costs for treatment of sewage. The City accrues an amount for these charges each year based on its best estimate of usage. Adjustments to the accrued charges which result from subsequent billings by the WSSC are recorded in the period during which the final bill is received by the City.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(13) Commitments (Continued)

(b) Post-Employment Benefits

In addition to the pension benefits described in Note 15, the City provides post-employment health benefits. The pension plan, under the direction of the Retirement Board, authorizes a retiree who elects to stay with the City's policy group to receive from the City the employer's share (i.e., the same level of premium support given to current employees) of medical insurance premiums up until age 65. In the event a retiree establishes residency outside the geographic area served by the City's group health insurance carriers, that person may purchase coverage and receive reimbursement from the City in an amount not to exceed the prevailing two-person coverage employer rate granted to current employees. The pension plan stipulates that eligible retirees from the administrative and union employee groups shall include those who (a) retire, having attained age 60 while employed with the City and who have completed at least 10 years of service prior to retirement, (b) take early retirement occasioned by poor health, having attained age 50 while employed with the City and having completed 10 years of service, or (c) take early retirement from the City when their age plus service equals or exceeds 85. Eligible police retirees are those who have met the conditions stated above or who have attained their normal retirement date on the first day of the month coinciding with or following the earlier of (a) the employee's 60th birthday or (b) the later of the employee's 51st birthday and completion of 25 years of credited service. Currently, the City finances the post employment health insurance benefits on a pay-as-you-go basis and expenditures for these insurance premiums are recorded in the General Fund. During fiscal year 2002, 35 retirees received post-employment health benefits. Expenditures of approximately \$48,000 were incurred by the City in furnishing these benefits.

(14) Litigation

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. The total amount of pending lawsuits and claims not covered by insurance nor expressly provided for in these statements is considered to be immaterial.

(15) Pension Plan

The City employees participate in one single-employer defined benefit pension plan and one defined contribution pension plan. The Retirement Board has the authority to establish and amend the benefit provisions of the pension plans including contribution requirements of the employees and employer.

The financial statements of the City's pension plans are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which contributions are due. City contributions to each plan are recognized when due and the City has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The Principal Mutual Life Insurance Company is the administrator of the single-employer defined benefit plan and defined contribution plan, which was established and is administered by the City of Rockville. The Public Employee Retirement System (PERS) is considered part of the City of Rockville reporting entity and is included in the City's financial reports as pension trust funds. The plans do not issue separate financial statements.

Investment gains for the current year were greater than expected. This is a result of the demutualization compensation the plan received. The demutualization compensation was paid to the plan when Principal Financial Group became a stock company late in 2001. The plan received \$1,636,232 in demutualization compensation. Even without the additional demutualization compensation, the plan continues to have assets in excess of the actuarial accrued liability.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(15) Pension Plan (Continued)

A. Plan Description

The PERS has a defined benefit option and a defined contribution option, which report as separate pension trust funds.

(1) Defined Benefit Option

This option is available to police employees, which participate 100 percent in the defined benefit option regardless of the date of employment and non-police employees who were members of the plan as of April 14, 1986. All benefits vest after 10 years of credited service. An employee who retires at age 60 or a police employee with the completion of 25 years of credited service regardless of age is entitled to an annual retirement benefit, payable monthly for life (120 payments are guaranteed), for union employees in an amount equal to 1.8 percent of his/her final average salary, for each year of credited service, for administrative personnel in an amount equal to 1.8 percent before April 1, 1996, and 2.0 percent on or after April 1, 1996, of his/her final average salary, for each year of credited service and for police personnel in an amount equal to the lesser of (a) 2.0 percent of his/her final average earnings multiplied by his/her years of credited service, and (b) 60 percent of his/her final average earnings. Final average salary for administrative personnel and union employees is computed as the average earnings over three consecutive years within the last 10 years of service which produces the highest average and for police employees the average annual earnings is computed as the average annual earnings during the final 60 months of employment with the City.

Covered police and pre-1986 non-police employees are required by statute to contribute a certain percent (4.2 percent for union, 5.2 percent for administrative and 8.5 percent for police) of their salaries to the plan. If an employee leaves covered employment or dies before 10 years of credited service (based upon a graduated vesting schedule of 50 percent after five years, up to 100 percent after 10 years of credited service), accumulated employee contributions plus credited interest thereon at the rate of 6 percent and a portion of the City's contribution (City contributions are deemed to be 150 percent of the employees contributions plus credited interest) are paid to the employee or designated beneficiary.

This option also is available to full-time, permanent, non-police employees hired on or after April 15, 1986. These employees also are covered by the defined contribution option described below. Employees are required to participate from the date of employment. Union employees are covered for an annual benefit equal to 1 percent of average salary and administrative personnel are covered for an annual benefit equal to 1.0 percent before April 1, 1996, and 1.2 percent on or after April 1, 1996, of average salary (as previously defined) for each year of credited service. Administrative personnel are required by statute to contribute 1 percent of their salaries to the plan starting April 1, 1996. Employees are vested 100% after 10 years of service.

(2) Defined Contribution Option

Full-time, permanent non-police employees hired on or after April 15, 1986, are required to participate in this option from the date of employment. The plan allows contributions up to a maximum of 5 percent of earnings. The employee contributions are matched \$.50 by the City for each \$1 contributed by the employee. The employee is fully vested in his/her employee contributions and investment earnings thereon. The City's contribution for each employee (City's contributions and investment earnings thereon) is partially vested after three years and fully vested after seven years of credited service. Employees attaining the age of 60 become fully vested regardless of the number of years of credited service. The contributions actually made in FY 02 for plan members were \$697,025 and the City contributed \$348,512.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements
June 30, 2002

(15) Pension Plan (Continued)

A. Plan Description (Continued)

Membership in the defined benefit plan consisted of the following at April 1, 2002, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving payments	119
Terminated plan members entitled to but not yet receiving payments	85
Active plan members	<u>504</u>
Total	<u>708</u>

B. Funding Policy and Annual Pension Cost - Defined Benefit Option

The employee contribution requirements for the plan are set by the Retirement Board. The City's annual contribution is based on annual actuarial valuations. The City of Rockville bears the cost of administering the pension plan.

Contribution rates	
City	5.25%-6.38%
Plan members	0.00%-8.50%
Annual pension cost	\$1,190,163
Contributions made	\$1,190,163
Actuarial valuation date	4/1/02
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	0 years
Asset valuation method	
Fixed income assets	Contract basis
United States Stock	Four years smoothed market
Actuarial assumptions	
Investment rate of return	7.75%
Projected salary increases	3.88%-8.10%
Includes inflation at	3.00%
Cost of living adjustments	0.00%

The PERS funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The actuarial assumptions used to compute the required contribution amount are the same as those used to compute the pension benefits earned. The rate for the City's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The contribution rate for normal cost is determined using the credited projected benefits actuarial funding method with proration based on service. The City of Rockville is required to contribute all amounts in excess of employee contributions necessary to fund this pension plan, using the entry age-normal actuarial method.

C. Historical Trend Information - Defined Benefit Option

Historical trend information about pension plans is presented herewith as required supplementary information. This information is intended to help users assess pension plan funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems. The amount shown in the historical trend information as the "actuarial accrued liability" is a measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Annual pension costs equal the employer's annual required contributions for all disclosed fiscal years.

CITY OF ROCKVILLE, MARYLAND

Notes to General Purpose Financial Statements June 30, 2002

C. Historical Trend Information - Defined Benefit Option (Continued)

1) Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date April 1	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(A-B) Funded AAL (FAAL)	(A/B) Funded Ratio	(C) Covered Payroll	((A-B)/C) FAAL as a percentage of Covered Payroll
1997	\$31,166,006	\$25,764,412	\$5,401,594	121.0%	\$14,087,288	38.3%
1998	35,031,665	27,810,959	7,220,706	126.0	15,801,941	45.7
1999	39,139,715	29,550,412	9,589,303	132.5	17,111,645	56.0
2000	42,656,509	31,873,609	10,782,900	133.8	18,688,532	57.7
2001	41,714,743	33,981,593	7,733,150	122.8	19,394,622	39.9
2002	45,290,157	37,225,924	8,064,233	121.7	22,224,041	36.3

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and funded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the City's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the PERS. Trends in the funded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the funded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the City's progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the PERS.

2) Schedule of Employer Contributions (1997-2002)

Plan Year Ending April 1	Contribution	Contributed
1997	\$ 728,264	100.0%
1998	815,280	100.0
1999	930,662	100.0
2000	1,040,585	100.0
2001	1,139,933	100.0
2002	1,190,163	100.0

Note: Contributions have been made in accordance with actuarially determined requirements which have been computed each year.

(16) New Governmental Accounting Standards Board (GASB) Standards

Statement No. 34, "Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments", issued June 1999, as amended by Statement No. 37, will be effective for the City of Rockville for the fiscal year ending June 30, 2003. Statement No. 38 "Certain Financial Statement Note Disclosures," is effective with the adoption of Statement No. 34. Statement No. 34 imposes new standards for financial reporting while Statement No. 38 modifies and imposes new disclosure requirements. Management has not yet completed their assessment of the statement, however, it will have a material effect on the overall financial statement preparation of the City of Rockville.

BID FOR GENERAL OBLIGATION BONDS

June 12, 2003

The Mayor and Council of Rockville
Maryland Avenue at Vinson Street
Rockville, Maryland 20850

Ladies and Gentlemen:

We make the following offer for the bonds of The Mayor and Council of Rockville, indicated below and described in the Terms of Proposal of said bonds, which Terms of Proposal are hereby made a part of this bid, this offer being for all of said bonds and not for less than all:

For \$13,395,000 General Obligation Bonds of 2003 (the "Bonds"), maturing on March 15 in the years and bearing interest as follows:

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
2004	_____ %	2011	_____ %	2018	_____ %
2005	_____ %	2012	_____ %	2019	_____ %
2006	_____ %	2013	_____ %	2020	_____ %
2007	_____ %	2014	_____ %	2021	_____ %
2008	_____ %	2015	_____ %	2022	_____ %
2009	_____ %	2016	_____ %	2023	_____ %
2010	_____ %	2017	_____ %		

(CROSS OUT SERIAL BOND MATURITIES BEING PURCHASED AS TERM BONDS)

Designation of Term Maturities

Years of Term Maturities:

_____	_____
_____	_____
_____	_____

Please indicate (x) the appropriate choice regarding the good faith deposit:

- _____ We have posted a surety bond in the amount of \$133,950 in accordance with the attached Terms of Proposal.
- _____ We enclose a certified or bank cashier's or treasurer's check drawn upon an incorporated bank or trust company for \$133,950, in accordance with the attached Terms of Proposal.

We will pay an amount equal to the par value of the bonds	\$	13,395,000
plus a premium (less a discount) in the amount of	\$	
making a total of.....	\$	

and also accrued interest from June 1, 2003, to the date of delivery of the Bonds.

Bidder

By: _____

Title: _____

(No addition or alteration, except as provided above, is to be made to this bid and it must not be detached from the annexed Terms of Proposal.)

To communicate changes in the maturities and principal amounts as contemplated by the Terms of Proposal, please contact:

Name (Telephone Number)

The following is for information only and is not part of this bid:

Aggregate amount of interest from date of bonds

to final maturity.....\$_____

True interest cost.....\$_____

The above good faith check has been returned and receipt thereof is fully acknowledged.

Bidder

By: _____

Title: _____

BID FOR GENERAL OBLIGATION REFUNDING BONDS

June 12, 2003

The Mayor and Council of Rockville
Maryland Avenue at Vinson Street
Rockville, Maryland 20850

Ladies and Gentlemen:

We make the following offer for the bonds of The Mayor and Council of Rockville, indicated below and described in the Terms of Proposal of said bonds, which Terms of Proposal are hereby made a part of this bid, this offer being for all of said bonds and not for less than all:

For \$14,600,000* General Obligation Refunding Bonds of 2003 (the "Bonds"), maturing on March 15 in the years and bearing interest as follows:

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
2004	_____ %	2008	_____ %	2012	_____ %
2005	_____ %	2009	_____ %	2013	_____ %
2006	_____ %	2010	_____ %		
2007	_____ %	2011	_____ %		

(CROSS OUT SERIAL BOND MATURITIES BEING PURCHASED AS TERM BONDS)

Designation of Term Maturities

Years of Term Maturities:

_____	_____
_____	_____
_____	_____

* *The City reserves the right, after proposals are opened and prior to award, to increase or reduce the principal amount of the Bonds offered for sale. Any such increase or reduction will be made in multiples of \$5,000 in any of the maturities. In the event the principal amount of the Bonds is increased or reduced, any premium offered or any discount taken by the successful bidder will be increased or reduced by a percentage equal to the percentage by which the principal amount of the Bonds is increased or reduced.*

Please indicate (x) the appropriate choice regarding the good faith deposit:

- _____ We have posted a surety bond in the amount of \$146,000 in accordance with the attached Terms of Proposal.
- _____ We enclose a certified or bank cashier's or treasurer's check drawn upon an incorporated bank or trust company for \$146,000, in accordance with the attached Terms of Proposal.

We will pay an amount equal to the par value of the bonds	\$ 14,600,000*
plus a premium (less a discount) in the amount of	\$
making a total of.....	\$

** preliminary, subject to change*

and also accrued interest from June 1, 2003, to the date of delivery of the Bonds.

_____ Bidder

By: _____

Title: _____

(No addition or alteration, except as provided above, is to be made to this bid and it must not be detached from the annexed Terms of Proposal.)

To communicate changes in the maturities and principal amounts as contemplated by the Terms of Proposal, please contact:

Name (Telephone Number)

The following is for information only and is not part of this bid:

Aggregate amount of interest from date of bonds

to final maturity.....\$_____

True interest cost.....\$_____

The above good faith check has been returned and receipt thereof is fully acknowledged.

_____ Bidder

By: _____

Title: _____